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de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

REPORT ON NON-PROFIT HOUSING

(Section 3.12, 1992 Annual Report
of the Provincial Auditor)

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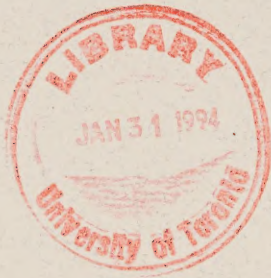
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LEGISLATIVE ASSEMBLY
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COMITÉ PERMANENT DES
COMPTES PUBLICS

The Honourable David Warner, M.P.P.,
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report on Non-Profit Housing (Section 3.12 of the 1992 Annual Report of the Provincial Auditor) and commends it to the House.

Joseph Cordiano, M.P.P.,
Chair

A handwritten signature in dark ink, appearing to read 'J. Cordiano', written over the printed name and title.

Queen's Park
December 1993

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PREAMBLE

The Provincial Auditor's 1992 report on non-profit housing (s. 3.12, *1992 Annual Report*) was considered by the Standing Committee on Public Accounts in hearings in 1993.

The witnesses at the hearings included the following officials from the Ministry of Housing: the Deputy Minister and the Assistant Deputy Minister, Housing Operations; the Assistant Deputy Minister, Housing Planning and Policy Division; the Assistant Deputy Minister, Corporate Resources Management; the Executive Director (Acting), Housing Field Operations; the Director, Housing Programs Branch; the Manager of Housing Programs, Central Ontario Region; the Director of Audit Services Branch; and the Director of Information and Technology Services Branch.

The Committee would like to thank the witnesses for attending the hearings at Queen's Park and to acknowledge the receipt of the supplementary documentation in response to the Committee's requests. This material has been useful in the Committee's deliberations and in the preparation of recommendations.

The Standing Committee on Public Accounts would like to acknowledge the assistance provided by the Office of the Provincial Auditor, the Committee Clerk, and the Legislative Research Service in the hearings. This Report was prepared by the Legislative Research Service, pursuant to the instructions of the Standing Committee on Public Accounts.

INTRODUCTION

In 1986 the province assumed responsibility for the program delivery of non-profit and cooperative housing projects. In recent years the federal government has been withdrawing from the social housing sector, and the province has assumed an increasing role through self-funded "unilateral programs."

The Ministry's new responsibilities for large scale social housing projects resulted in administrative challenges as the organizational structure and administrative practices for program delivery required improvements. The Ministry commented on the nature of these challenges during the period 1990-91:

. . . 1990 and 1991 were absolutely extraordinary years in the Ministry of Housing, delivering the largest volume of program delivery that the Ministry had ever seen and the largest volume [residential units] since 1970 in the province at large at a time when the market conditions we were dealing with were undergoing rapid change. The boom peaked; it turned. At the time it turned, the government introduced the GST [Goods and Services Tax], and we had a whole series of changes in our environment at the same time when our volumes had never been higher.

The Ministry has considered alternative administrative methods for program delivery to determine the optimum practices. At the time of the audit, the Ministry acknowledged that it was going through a transition period and that there were difficulties:

We [Ministry] were administering the federal-provincial program based on a set of administrative practices agreed with the federal government and two provincial programs that essentially were using the same format and, secondly, delivering *Homes Now*, a very large program, in a somewhat different administrative format and at a scale that the Ministry had not dealt with before.

The program resources "were based on the minimum administrative practices required for good program delivery and cost-effectiveness," according to the Ministry. The Provincial Auditor's report on non-profit housing addressed a number of administrative issues in the social housing field.

Provincial Auditor's Report

The Provincial Auditor's 1992 report assessed the administration of the Ministry of Housing's non-profit housing program in two main areas:

- controls over project selection and development; and
- controls over completed projects, including efforts to monitor costs, results, and compliance with program guidelines.

A number of concerns were identified in the audit on the "selection and approval of housing proposals" and on "completed projects in operation." In the selection and approval of housing projects, the Auditor concluded that the processing of 70,000 assisted housing units over a five-year period was costly. The inflexible annual deadlines to meet quotas and the real estate market "boom" contributed to costs. Furthermore, the controls on the allocation process and the system to ensure competitive costs were not satisfactory. The Ministry's need to expedite approvals and the lack of experienced staff contributed to the problems. The Auditor identified the following specific concerns:

- housing need and demand studies were not thorough;
- the cost of projects approved for go-ahead in 1990 and 1991 continued to increase despite changing market conditions;
- the use of "highest and best use" appraisal values was very costly in property purchases.

According to the audit report, the Ministry did not examine recent land transactions before approving land prices for purchases and it did not use competitive procurement practices when possible. The allowable maximum unit price therefore became the "target price" and not the "ceiling price".

The Ministry met the necessary requirements in several areas of the development process, as follows:

. . . the Ministry conducted satisfactory reviews of site plans before approval. As well, monthly on-site inspections ensured that projects were built according to approved plans and that progress payments to contractors were justified.

The Auditor concluded that projects in operation did not have satisfactory controls to ensure cost-effective management and program compliance. Four areas were addressed in the audit report:

- operating agreements were not yet in place to clearly establish financial control and accountability between non-profit housing providers and the Ministry;
- over 25% of the projects reviewed lacked approved operating budgets;
- controllable operating costs such as labour and administration were high, particularly in Central Region; and
- [The Auditor's] . . . visits to projects indicated that those groups [audit sample] had adequately verified income and determined eligibility for [rent-geared-to-income] RGI tenants. However, multiple waiting lists and inconsistent placement criteria and referral practices make it unlikely that those in need of affordable housing will be treated consistently, equitably and efficiently.

Ministry Responses

Sections of the Ministry of Housing's initial response to the audit report were included in the Auditor's *1992 Annual Report*, and prior to the hearing the Ministry sent a letter to the Committee dated March 5, 1993, and addressing a number of issues. Several of these issues were elaborated on by the Ministry and will be dealt with in this Report, namely, development costs, potential cost savings, acquisition costs in Metropolitan Toronto, overallocation of units and operating costs. The Ministry also explained that changes in program delivery and administration were introduced prior to the release of the Auditor's *Annual Report* (1992).

In September 1991, the Ministry began a review of the non-profit housing program. The results are to be addressed in the jobsOntario•Homes initiative and in the administration of existing programs, according to the Ministry's letter. The jobsOntario•Homes initiative is a three-year non-profit and cooperative housing program for 20,000 units. According to the Ministry's document, *Consultation Counts*, the program will develop a new accountability structure which will identify specific areas of responsibility in the development process. Also, the funding approach will introduce, in place of the budgetary review process, an annual transfer-payment mechanism to assist in cost control measures.

The Committee submitted the draft recommendations to the Ministry of Housing in June 1993 for comments. The Ministry responded initially in July 1993 and again in October 1993 to a supplementary request for additional information. The complete text of these responses is included in the relevant sections of this Report.

July 1993 Ministry Response

This is in response to your memorandum of June 24, 1993 concerning the request of the Standing Committee on Public Accounts discussion on Section 3.12 of the Provincial Auditor's 1992 Annual Report dealing with Non-Profit Housing projects. Although, the Ministry had some specific comments, in general we

found the recommendations instructive and believe that their implementation will improve the delivery and administration of the non-profit housing program.

October 1993 Ministry Response

This is in response to your letter of September 20, 1993 and the request of [the] Committee of September 10, 1993 concerning the timeframe to provide action plans and target dates for completion of some of the draft recommendations provided to the Ministry for comment in June 1993.

Many of the improvements suggested by the auditor's report were recognized and were incorporated into overall ministry work plans for improvements to the existing programs and the design of the new **jobsOntario•Homes** program. As a result, explicit work plans which correspond to the Committee's draft recommendations have not been developed but as I indicated at the committee discussions, the ministry can relate most of these draft recommendations to work already underway.

The Housing Framework for Ontario consultation and the resulting design of the new non-profit housing program, **jobsOntario•Homes**, has been much of the catalyst around improvements, both to the existing program and new delivery. It would be worthwhile explaining the overall work plan for **jobsOntario•Homes** before reviewing how the draft recommendations are being addressed.

The design and implementation of **jobsOntario•Homes** is being governed by the six objectives of the Housing Framework for Ontario consultation. These six objectives outlined in the ministry's policy direction publication Consultation Counts: Taking Action on a Housing Framework for Ontario, are:

- Increase the supply of affordable housing
- Increase access to adequate and affordable housing suitable to people's needs
- Support the empowerment of individuals
- Support community-based delivery and management of non-profit housing
- Promote environmental stewardship in non-profit housing
- Ensure the effective and efficient use of public funds

Program design links policy direction to unit delivery and program maintenance and where appropriate, program design will be applied to existing programs. Program documentation and delivery tools (e.g. procedures, agreements, standards, manuals etc) are being designed for each phase of the program. Many of the committee's draft recommendations focus on the development phase of the program. This phase consists of six major steps which include distribution of units, solicit proposals, select proposals, select site, develop project and construct project. A outline of this process is

attached as Appendix 1. An understanding of the overall process is important for an understanding of some of the specific elements which are outlined below.

The following is an overview of ministry action plans according to the committee's draft recommendations. Where action plans do not exist, an indication of timeframe for development is provided. I should point out that in most cases, only a summary of the work plan is provided. If the committee would like more detail, the ministry would be pleased to provide a detailed work plan, if available.

Committee's Report

The Committee has addressed the Provincial Auditor's findings and conclusions, the Ministry's responses, and the specific initiatives taken by the Ministry to address the concerns. The Committee raised a number of issues, some of which have resulted in recommendations in this Report.

To facilitate cross referencing, the format used in this Report is based on the organizational framework used in the Provincial Auditor's report .

SELECTION AND APPROVAL OF HOUSING PROPOSALS

Non-profit housing projects are initiated by community-based groups. Units are allocated on a regional basis, and applications are evaluated with respect to, for example, need and demand studies, targeting plans, site suitability and cost effectiveness. At issue in this Report is whether the Ministry complied with established selection and approval criteria for housing proposals.

The Ministry follows six essential selection criteria for non-profit housing projects:

- sponsor group's capability (e.g., experience and competence of consultants);

- need and demand studies (e.g., the assisted housing survey/market needs analysis);
- site considerations (e.g., environmental matters);
- housing form (e.g., amenities);
- costs (e.g., viability within the Ministry's maximum unit price (MUP)); and
- various other considerations (e.g., the fair share allocation model based on geographical distribution).

The Provincial Auditor addressed several matters in the selection and approval process of housing proposals, namely, the expedited approval process, vacant units and income integration, control over development costs, highest and best use appraisal values, competitive procurement practices, the maximum unit price concept, high development costs and construction controls.

Expedited Approval Process

The Provincial Auditor noted that provincial projects and joint federal/provincial projects were approved under time constraints to meet various commitments and deadlines. Several related issues were addressed in the approval process by the audit team:

- resources for the review and approval of projects have not been increased for the caseload (e.g., lack of experienced staff);
- need and demand studies were not being conducted as required; and
- the Fair Share Model was not used in all cases, resulting in overallocations.

In response to the audit report, the Ministry provided the following explanations:

- need and demand studies were not always included in the project assessment process because demand had been established in the particular market on several occasions (e.g., City of Toronto);
- the Ministry's data supplied to the Provincial Auditor, on the federal-provincial allocations was incorrect and the actuals confirmed the over commitment to some markets; and
- . . . the Ministry agreed with the Auditor's concerns over the federal Fair Share Model.

During the approval process, the Ministry generally followed the criteria of site availability and the state of preparedness of the various groups to develop a project.

The Committee pursued the matters of need and demand studies, the relevance of the Fair Share Model and the accuracy of the data provided to the audit team by the Ministry.

Need and Demand Studies and the Fair Share Model

The Ministry explained that the Provincial Auditor reviewed projects that received allocation commitments under the particular market conditions of the period 1988-1991 period. The distribution was based on a "judgement" that regions would receive a certain allocation. Need and demand studies were not required as a matter of administrative practice in all cases in markets in which such studies had been completed recently. The Ministry explained that needs assessments were not required in some markets in Toronto for a specific period.

The unit distribution process for non-profit housing in Ontario was based on the federal Fair Share Model. Under this system, each region submitted proposals to

absorb the available units by the annual deadline. The regional allocation was based on core housing needs, waiting lists and the rate of turnover in existing social housing units. Also, the Ministry explained that it has adopted, "the strategy of providing a buffer against another affordable rental housing shortage."

The Fair Share Model established on a geographical basis target areas of greatest need. A sponsor then initiates a project on behalf of a client group. The Provincial Auditor concluded that three planning areas were overallocated with non-profit projects based on Ministry documentation. The Ministry subsequently reviewed its data and identified problems. According to the Ministry's letter of March 5, 1993:

. . . staff have reviewed the data provided to the Auditor during the audit (including the Ontario Social Housing Annual Review 1990) and confirmed that the Ministry's database provided was both inadequate and contained mathematical errors.

After reviewing the database the Ministry confirmed that the variance is in the order of seven to fifteen percent between the allocation and units committed for construction in these planning areas over the first five years of the program. Also, the variances in the allocation of units were explained in this letter. The Ministry stated "that there cannot be perfect conformity between the Fair Share Model and the project selection criteria." The variance between the allocation procedure and the unit allocation was attributed to several factors:

- a number of projects do not meet the program requirements;
- substitution projects may replace cancelled projects;
- sites may not be available in designated areas; and
- variance between actual and planned allocations could be due to government priorities or client group proposals.

The Ministry feels that the Fair Share Model is not adequate to establish need in all instances. According to the Deputy Minister, this policy is no longer in effect, and "there are a number of market places where no applications will even be accepted." In 1991, market conditions changed and the Ministry altered its policy, requiring that "need" must be demonstrated for new program delivery. In this year's federal-provincial program, 30 municipalities are not eligible, and, based on the lack of demand, applications have not been accepted.

The Ministry of Housing will be implementing a less centralized allocation/project selection process to address need and demand data. The new community focus was described in the Ministry's 1992 document *Consultation Counts*:

The Ministry of Housing's current "fair-share allocation model" is largely a "top-down" approach which allocates the units across 16 planning regions by client group (family, seniors and singles). However, an allocation process that is too centralized lacks flexibility and sensitivity to local market conditions. Program goals may then not be met because community interests do not match centralized priorities.

. . . the Ministry of Housing will be working with the Housing Advisory Committee to design an allocation and project selection process for jobsOntario•Homes which will be based more on community need and demand information, adding a "bottom-up" project selection component.

The proposed changes to the allocation process would introduce a provincial system with a focus emphasizing local market conditions. The Ministry described the components of the provincial allocation system as follows:

A two-staged model:

- the first stage would distribute to regions directly using a provincial allocation model; and

- the second stage would be a regional distribution process that would allow for more local input into the measuring of need and demand.

Adding a component in the model that looks at market conditions:

- the short term demand measured by vacancy rates; and
- the longer term demand measured by household projections and headship rates for rental households.

The Ministry explained that the identification of suitable sites is a primary concern in the program delivery system. This factor contributed to the decision to follow a bulk allocation approach and the practice of guaranteeing purchase sites.

The Committee acknowledged that initiatives have been taken to introduce a provincial allocation system, and, therefore, to address the role of need and demand studies and the past problems of the Fair Share Model. The Committee is of the opinion that the Ministry should review the new provincial system to assess its effectiveness and to ensure that allocations are in compliance with Ministry criteria, taking into account established policy commitments in the area of housing supply under the jobsOntario•Homes program.

The Ministry has adopted policies to address the need and supply of affordable housing units as outlined in the Ministry's responses of July and October 1993 included in this Section. The jobsOntario•Homes program's regional distribution process lists communities and classifies them into categories based on proven levels of need/demand. Regional Housing Program's offices are required to evaluate the nature of the need and decide whether a project is required based on the new housing allocation system. The "buffer" policy outlined in the Ministry's October 1993 response is based on the need to ensure an adequate supply of affordable units over the long term.

The Committee acknowledged the benefits of the Ministry's new allocation system and the role of an adequate supply of affordable housing units. These policies should be integrated in a single "demand and supply model" or framework which would reconcile each component in the allocation of affordable housing units.

The Committee therefore recommends that:

1. *The Ministry of Housing should review the provincial non-profit housing allocation system at the end of the first year of operation to ensure that the approval system is adequately staffed, the local market conditions are addressed and that the residential units are allocated in areas of proven need.*

July 1993 Ministry Response

The Ministry believes that the new housing allocation system will improve our ability to allocate units across the Province in the areas of need. Under the new allocation model, units will be distributed regionally according to need. In addition, all communities have been divided according to high proven need, medium proven need and low proven need. Sponsors wishing to develop in medium and low proven need areas will be required to provide a further justification (e.g. developments in low need areas will be required to provide full need and demand studies).

The Ministry supports the recommendation that the system be reviewed after one full year of operation. On the issue of adequate staffing, it is the Ministry's intention to adequately staff the delivery and administration of the non-profit housing program. Approval has been granted for additional staff for the program. It should be noted that these approvals are for temporary/contract staff and the number of staff were determined on the basis of a minimum compliance scenario. However, the Ministry is, through its program design, streamlining the processes in the program in order to make better use of staffing resources.

October 1993 Ministry Response

The concept of a buffer relates to the need to ensure an adequate supply of affordable rental housing in the long term. There are three critical assumptions that relate to this.

- i. As a result of demographic trends there will continue to be substantial household growth for the next decade which will mean a demand for both family and non-family housing.

The delivery of non profit housing increases the supply of high quality rental housing available to low and moderate income households. Even with the significant commitment this province has made to the provision of affordable rental supply through non-profit housing programs, there is still not enough rental housing being produced to meet the needs of Ontario's growing population.

The diagram A in Appendix 9 illustrates the projected rental housing requirement and compares this to rental starts. Rental housing requirements are calculated based on the analysis of demographic trends.

The rental housing requirements will continue to remain high throughout the 1990s. The rental requirements for 1991 to 1996 is 23,810 and for 1996 to 2001 is 20,061.

- ii. The private sector will not build much rental housing in the future, either expensive or affordable. Private sector production has dropped and many of the starts can be attributed to the syndication of condos for rental to individuals as a tax write-off.

For many years now, the private market has produced far fewer affordable rental units than are needed by Ontario's growing population. Table 1 illustrates how the assisted rental starts have become the major contributor to the total rental stock by increasing from 4,599 in 1984 to 16,800 in 1992. Whereas private starts dropped from 4,969 in 1984 to 2,500 in 1992.

This inability to produce sufficient rental housing has lead to low vacancy rates in many areas, and a situation where many households have very few housing choices. Chart B in Appendix 9 illustrates the vacancy rates in selected Metropolitan Areas from 1983 to 1992.

- iii. Housing takes a long time to get approval for and build. If we stopped building (or eliminated our buffer) and demand takes off we will again see the vacancy rate declining to close to zero in major housing markets.

Table 1 in appendix 9 also demonstrates how demand can and did increase dramatically from 64,871 total starts to 105,213 total starts, from year 1985 to 1987. Rental starts jumped from 13,518 to 17,982 over the same time period. Long approval processes would still delay construction even when demand is high.

These factors would result in a shortage which the Ministry could do nothing about. In times of housing shortage it is our clients who suffer the most and find it most difficult to get appropriate affordable housing. The concept of a buffer describes the Ministry continuing to build even when vacancy rates are relatively high.

Vacant Units and Income Integration

According to the audit report, it has not been possible to meet the targets for designated market rent units due to a lack of demand in some projects. It was noted by the Provincial Auditor that the average income mix in the projects they examined was approximately 75% rent-geared-to-income (RGI) tenants.

The Auditor reached the following conclusion on need and demand studies:

Proper need and demand studies should have addressed the need for, and availability of, market rent units, not just rent-geared-to-income units.

The province-wide consolidated waiting list is 59,000 households, according to the Ministry, and, of the 120,000 units in operation, approximately 30 to 35% are market rent units. Almost all of the vacancies in non-profit buildings are in market rent units and the Ministry is considering reducing rents on these units. The subsidy levels, the program's income integration over the long term and vacant units in existing non-profit building were of concern to the Committee.

Control Over Development Costs

The Province announced funding for a total of 46,600 units in 1988 and 1991. In addition, 35,000 federal/provincial units have been approved for construction. As reported by the Provincial Auditor: "The majority of the 46,600 provincial units will be constructed in fiscal years ending March 31, 1993 and 1994 with total capital costs approximating \$5 billion. . . . By 1995 when over 81,000 units are completed, total provincial subsidy costs will approach \$1 billion annually."

In response to the development costs, the Ministry is in the process of reviewing capital costs, maximum unit prices (MUPs), tendering procedures and budgets. Initiatives have been taken by the Ministry to reduce capital costs through a more effective MUP, a competitive tendering process, and streamlining project reviews and approvals.

In this Section of the Report, several financial considerations in the development of non-profit units are addressed, including development costs, real estate appraisal methods, competitive procurement practices, maximum unit prices, and cost controls.

Expected Decline in Costs Not Realized

Taking into account the fact that certain costs could not be controlled during a real estate market boom, the Auditor assessed the effectiveness of procedures to manage costs. The audit team assessed whether the decline in market costs after 1989 resulted in lower per unit costs. According to the Auditor's assessment prices did not drop in the audit sample, in line with market prices. In addition, the Ministry's purchases of existing buildings were at prices higher than market prices, according to the audit report.

Comparative Model and Unit Costs

The Committee discussed the model used by the Provincial Auditor to establish development or construction costs based on a "two-bedroom equivalent" model. The Ministry agreed that it is difficult to define an "easy way to measure development costs." As noted during the hearings, the Ministry's sample two-bedroom apartment project had similar costs for the same time period based on the Auditor's model.

The Ministry explained that final capital costs or actuals "were not fully available at the time the audit was done, so it's perfectly reasonable to try to erect some

methodology in that circumstance." It was agreed that the particular mix of units in a project and actuals are necessary to establish exact cost comparisons and, therefore, a model of development costs was used in place of the final figures.

As noted in the Auditor's report, the Ministry did not agree with the Auditor's methodology, the cost comparison between the public and private sectors and the financial impact assessment. The Ministry's response focused on a number of issues:

- There are certain costs associated with providing non-profit housing that do not occur entirely or to the same degree in the private sector " (e.g., the costs of the community-based delivery approach).
- The housing indices used by the Auditor [to] measure private market trends . . . cannot be used as a measure to assess factors related to non-profit housing.
- The theoretical construct used to compare unit costs takes into account only square footage and can not establish the average cost of a two-bedroom unit.

The Provincial Auditor explained that the absence of an established methodology for purposes of comparison presented problems during the audit. The audit team used a methodology developed by the Ministry of Housing in a 1991 consultation paper to present a cost overview. The model provided the basis for a bridge from specific projects to the broad program with cost overviews. Such a model should have an acceptable variance between projected and actual capital cost figures.

In a letter to the Committee dated March 5, 1993 the Ministry concluded as follows on unit costs:

In comparing the results of the auditor's analysis to our actual numbers, the Ministry has concluded that

the two-bedroom equivalency calculation is not effective in estimating costs, and results in inaccurate conclusions for this sample reviewed. The \$158,000 finding was based upon a small sample of 12 projects in the Central Region using the two-bedroom equivalent methodology. . . .

With the benefit of a larger sample, Ministry records show that the actual average cost per unit in Metro Toronto in 1990 and 1991 was \$134,678 much below the audit estimate of \$158,000. This average is calculated based upon all of the 6,019 units in 67 projects committed in Metro Toronto these two years.

The Provincial Auditor's staff explained that their figures were based on committed costs and not actuals as the final figures were not available at the time of the audit. The difficulties that were encountered due to data limitations and the reliance on a model are as follows:

If you have a very heavy weighting towards single bedrooms, then those fixed costs associated with the single bedroom going to a two-bedroom get inflated in the model we [Office of the Provincial Auditor] apply Those 12 projects, [selected for the Provincial Auditor's sample] we weren't sure of the mix of units and, . . . the mix of units does make a very big difference to this calculation. That's where the difference arises.

The Ministry emphasized the importance of tracking the development costs: "land; construction costs/square foot and carrying costs during the planning process. These costs should be followed in relation to market conditions."

The Ministry established that, based on the actuals, the development cost for a non-profit two-bedroom unit is approximately \$143,000. The two-bedroom high-rise MUP for Metropolitan Toronto in 1991 was \$152,000, with commitments at 94% of the maximum unit price. On the basis of the Ministry's assessment of

actual project numbers, the costs have followed the change in market conditions with an acceptable variance.

The Committee expressed concern that the Provincial Auditor did not have access to data on the various projects on a program basis. This information, which included statistics on project volumes and price levels, was not available until mid-to late-1992. The Committee concluded that accurate project data is essential to understand fully the financing of non-profit housing and to establish control over development costs. It was noted that the Ministry is in the process of compiling this information.

Monitoring Market Trends

The Provincial Auditor concluded that "the rates [costs] did not drop with the market" and that savings could have been realized if "approval costs dropped in line with market prices." The Auditor indicated that \$200 million could have been saved, but the Ministry concluded that this could have been attributable to the indices and methods used in the audit. The Ministry noted that several factors accounted for \$180 million of the estimated \$200 million and that the Ministry did not pay a substantial premium.

The Provincial Auditor made the following comments on the expected decline in the market and the Ministry's capacity to make adjustments:

We came up with a calculation of a hypothetical amount, using your [Ministry] hypothetical two-bedroom apartment. We brought this out as one of the problems of the price not having dropped with the market as it went along. . . . Where we stand right now is that we have opted for the top of the range, based on our discussion, which was around [a] \$200-million differential on that sample and the ministry has acknowledged that it is at least \$20 million.

The Ministry concluded that it did not take full advantage of the change in market conditions in all instances, but that any losses were not large. The Ministry and Provincial Auditor could not agree on the size of the "overpayment" in capital costs during the recent fluctuations in residential market conditions.

The Ministry's letter of March 5, 1993, summarized specific concerns with the model developed for the purposes of the audit:

- The Auditor's analysis inflated the cost of housing using a two-bedroom, equivalent unit.
- Land costs dictated development patterns in Metropolitan Toronto during 1988-1991 when they were prohibited because of high costs and later prices were reasonable for non-profit units. Non-profit projects secure land in advance of commitments.
- The Ministry did not agree with the use of the annual Statistics Canada Housing Price Index as a market benchmark for cost comparisons. Also, the Index did not include the impact of the GST.
- In 1991, there were extra costs associated with the government's "Off-Electric" policy and the installation of gas equipment.

The Committee pursued the matter of cost differences in constructing and maintaining residential units in the public and private sectors. At issue is the cost-effectiveness with which the public sector is able to construct residential units. In addition to land costs, construction costs and "labour and related costs" were discussed.

The Ministry pointed out that during the audit period land prices and construction costs did not exceed those in the private sector, but that in some instances soft costs were above those in the private sector. The cost of the land has been a

major factor in price adjustments across the industry, and in some instances the land cost dropped by 33% following the boom period. At issue, according to the audit report, was the inability of the Ministry to take advantage of the drop in land prices. The Ministry's analysis of the costs is as follows:

. . . the most that we have ever paid for land was in 1988. At the peak we paid just over \$42,000 a suite for land. In 1991, our average declined to just over \$28,568 so we had a drop of about 33% in land. So again, we are consistent with the findings of the ministry study in terms of acquiring land at about \$30,000 a suite.

It was also explained that public and private housing costs were adjusted on a different percentage basis because the private sector peaked at a higher level; it was observed that some sectors of the private market were more expensive, for example, condominiums.

In the Ministry's regional offices, project costs and monthly construction price indices for the residential construction industry are monitored. According to the Ministry "the costs and the changes in costs over time in our [non-profit housing] program were in line with industry conditions and with changes in them."

However, according to the Ministry the public sector includes certain construction costs not included in the private sector, for example, financing costs are treated differently.

The Ministry indicated that it would be prepared to contribute to the development of an alternate methodology to compare equivalent costs in the construction of non-profit units. The Provincial Auditor commented that, rather than developing a model, it would be preferable to deal with actuals (which in this audit was not possible). The Provincial Auditor pointed out that by definition a model is an alternative to an assessment of actual cost and therefore has limitations in its application.

The Committee agreed with the Auditor's conclusions on the limitations of the model approach; however, in the absence of actual costs a comparative model would provide a preliminary overview of the program in future reviews.

The Committee is of the opinion that management should have the capability to monitor all aspects of the non-profit housing program on an ongoing basis.

Precise statistical information on the entire program and on each project at all stages in the development process is essential to promoting cost-effectiveness.

The Committee therefore recommends that:

2. *The Ministry of Housing should develop a comparative model of the non-profit program to assist in program management and future audits. The methodology should permit management to compare completed projects and to monitor those in the development phase on a consistent basis and to report on cost-effectiveness on an ongoing basis. Projected development costs and final capital costs or "actuals" should be maintained on a project basis with reference to the three main cost components of land, construction and soft costs which would include insurance for example.*

July 1993 Ministry Response

The Ministry supports this recommendation and has initiated a process which would track information necessary to make the comparisons recommended. The ability to compare project costs is an important component in ensuring cost-effectiveness of developments.

October 1993 Ministry Response

The Ministry is currently working on the development of systems which will track information necessary to make the comparisons recommended. There are currently two systems under development ... which will accomplish this task. They are:

- The Non-Profit Budget Review System, which will track/compare/analyze operating costs and revenues.
- The Non-Profit 1414 Evaluation System, which will track/compare/analyze the capital costs.

Information collected through these systems will be compared to the Marshall-Swift valuation service information for the comparisons recommended.

Action Plan

The action plan for improvements to the above noted systems is attached as Appendix 2. This initiative is also part of the draft recommendations dealing with tracking market construction prices.

The action plan for the development of the comparative model will be available in early 1994.

Highest and Best Use Appraisal Value

The Ministry's use of the "highest and best use" appraisal method is in compliance with government policy for the valuation of land or property. The Ministry's definition for this term is as follows:

Highest and Best Use in appraisal terms may be defined as that use which is most likely to produce the greatest net return in either money or amenities as at the date of the appraisal. This base is the acknowledged concept for valuation of land either vacant or improved and the Ontario Government official policy for selling or purchasing property.

The Auditor concluded that the use of the "highest and best use" appraisal methodology for real estate purchases contributed to prices higher than those in the marketplace. Also, in some instances recent market transactions were not taken into account. The Ministry stated that this method is consistent with standard practice in the public and private sectors, and that the policy is followed "to negotiate the best price based on market value."

Before the finalization of the cost components for a project, the Ministry requires a professional appraisal report as standard administrative practice, in conformity with industry practice. According to the Ministry, this method is used to determine "what the property can be used for". This methodology establishes a

market value for property, discounting the added costs of going through the planning process, for example, to achieve the highest and best use. Steps have been taken by the Ministry to ensure that the method is being used with appropriate training and also that audit practices are being reviewed.

The Committee questioned whether this method ensures value for money in all market conditions. According to the Ministry, the methodology has not resulted in real estate appraisals that diverge substantially from the market place. The Ministry explained that real estate prices in the non-profit program have "tracked the shape of market conditions" and reflected market adjustments.

The Committee is of the opinion that the Ministry should take steps to ensure that appropriate "market prices" are being paid for real estate purchases in all market conditions. The Ministry indicated in the initial response to the audit report that "if there is concern with the use of this type of appraisal, we will discuss the matter with the Ministry of Government Services." Also, the Ministry indicated that local land transactions would be addressed in future appraisals.

In conclusion, the Committee is of the opinion that the Ministry should assess the "highest and best use" appraisal method to determine whether the Ministry is achieving value for money in real estate purchases under the non-profit program.

The Committee therefore recommends that:

3. *The Ministry of Housing should assess the "Highest and Best Use" appraisal methodology to determine whether this approach is achieving value for money in non-profit housing real estate transactions.*

July 1993 Ministry Response

The Ministry is, as part of the jobsOntario•Homes design process, reviewing the guidelines for the appraisal of real property for development of non-profit housing including "Highest and Best Use" appraisal methodology. This review will provide appraisers with instructions on ensuring that the acquisition of property is fair value

and a prudent purchase. As the use of "Highest and Best Use" appraisal methodology is not only a Ministry policy but a government policy, the Ministry will be discussing this review with Management Board Secretariat.

October 1993 Ministry Response

The Ministry, as part of the **jobsOntario•Homes** design process, is reviewing the guidelines for the appraisal of real property for development of non-profit housing, including "Highest and Best Use" appraisal methodology. This review is part of the "select site" development phase.

Ministry of Housing staff are in the process of reviewing current appraisal methods to ensure that adjustments to current market conditions are made.

The appraisal will integrate the various investigative reports required under the **jobsOntario•Homes** Program. These include Environmental Site Assessments (ESA), Planning reports, Geotechnical and Architectural studies. The land value will then be adjusted to reflect the costs associated with the conclusions derived from these reports.

Action Plan

Map existing non-profit programs	June-July 1992
Analyze Framework & other documents Capital Cost Study	Aug 1992
Develop Approach to Appraisal Component	Sept-Dec 1992
Design Appraisal Process Produce Program Documents	Jan-Feb 1993
Draft Program Guidelines External Appraisal Guidelines	July 1993
Draft Program Guidelines Internal Appraisal Guidelines	Sept 1993
Draft Program Guidelines Estimate of Value	Sept 1993
Consultation	Oct 1993
Finalize Program Documents	Oct 1993
Finalize Program Guidelines External Appraisal Guidelines	Nov 1993

Finalize Program Guidelines Internal Appraisal Guidelines	Nov 1993
Finalize Program Guidelines Estimate of Value	Nov 1993
Complete Appraisal Component	Dec 1993

Competitive Procurement Practices

Following the boom years in the real estate industry, the Provincial Auditor

. . . expected that competitive procurement practices used in the building industry such as public, invitational and pre-qualification tenders would have been fully utilized.

This was not the case, and the Provincial Auditor concluded that qualified builders/developers were not given an equal opportunity in all instances and that this non-competitive approach did not allow for capital cost savings in all regions. In the Southern Region prices were competitive, in part, due to a computerized database which facilitated the "tracking" of market construction prices accepted by developers.

The Ministry explained that the acquisition of sites became a problem during the economic boom period, as quality sites were expensive. When demand eased at the end of this period, additional sites became available, and the Ministry began to deal with turnkey or modified turnkey projects, rather than using competitive tenders. In a turnkey arrangement, the property owner and the Ministry negotiate a contract based on the land with the required zoning for the proposed development. The Ministry explained that it entered a "negotiations phase" in place of tendering. At issue is whether the practices followed were more expensive than were competitive procurement practices.

The Ministry had to consider other factors in the procurement process, for example, the geographical distribution of sites, the mix of units and changing market conditions. The Ministry's assessment of the competitive nature of these options is as follows:

. . . there may well have been situations where it was more expensive to use a modified turnkey, but I don't think, in general, across the whole program, all the business practices that we would agree that the capital cost penalty was of the order [\$64-million] that's mentioned [in the Audit Report] . . .

Procurement practices, the tendering process and the purchase of turnkeys or modified turnkeys are under review by the Ministry. The Ministry indicated the importance of following appropriate business practices to ensure efficient delivery.

The Committee concluded that the delivery of the program would be assisted through a formal directive on procurement practices.

The Committee therefore recommends that:

4. *The Ministry of Housing should adopt a directive on competitive procurement practices to ensure that administrative procedures are followed to promote economy, efficiency and effectiveness in the development of residential units in the non-profit housing program.*

July 1993 Ministry Response

The Ministry supports this recommendation and is in the process of developing guidelines as part of the jobsOntario•Homes design on ensuring cost-effectiveness of procurement practises.

October 1993 Ministry Response

The Ministry is currently designing the requirement documents for the jobsOntario•Homes Program. As part of the program requirements, non-profit groups will be expected to hire all technical consultants and service providers by using a competitive approach.

Guidelines for hiring consultants and the levels of services expected for each facet of the design and development of residential units, will be given to non-profit groups as well as to the appropriate consultants.

Sponsor Groups will be provided with a series of documents to assist in the completion of program requirements. These will include:

- Handbooks

A handbook series will be available outlining the role and responsibilities of each consultant utilized in the development process;

Handbooks will also outline the requirement for a competitive selection process and provide guidelines for hiring and managing consultants

- Program Guidelines

Program material will stress the requirements for a competitive approach in the selection of consultants.

Five handbooks are under development in the following areas:

- Environmental Consultant Services;
- Architectural Services;
- Planning Consultant Services;
- Development Consultant (DC) and Resource Group Services.

Action Plan

Map existing non-profit programs	June-July 1992
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Analyze Framework & other documents	August 1992
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Develop Approach to Procurement Practises	Sept-Dec 1992
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Design approach for competitive Procurement	Jan-Feb 1993
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Produce Program Documents &
Draft Program Handbooks

- | | |
|---|----------|
| <ul style="list-style-type: none"> • ESA Consultants • Architectural Services • Planning Consultants • DC & Resource Groups | Oct 1993 |
|---|----------|

Consultation	Nov 1993
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Finalize Program Documents & Finalize Program Handbooks	
• ESA Consultants	
• Architectural Services	
• Planning Consultants	
• DC & Resource Groups	Nov 1993
Components Completed	Dec 1993

Conflict of Interest Provisions

The Committee emphasized the importance of avoiding conflicts of interest at the project selection stage. The Ministry introduced changes to improve the procedures and allocation process at the "proposal call" stage. The new system has specific requirements for tenders in response to a proposal call.

The Ministry requirements for the sponsor groups include the following: a mission statement for the management plan; a profile of clients *vis-à-vis* conflict of interest; the status of land (e.g., ownership and options); a list of project managers and professionals on retainer, and the group's compliance with the Ministry's program and policy framework.

The Ministry's Directive on Conflict of Interest Provisions (1992) is the first formal written Directive issued by the Ministry on this subject. Formerly, the Ministry's practice has been that conflicts must be declared. The revised form for a proposal call includes a section entitled "Conflict of Interest". Good business practice requires that a full declaration be made, and the possible consequences of conflicts are outlined:

. . . we [Ministry] sent a Directive to all of our own staff on our practices in relation to conflict of interest; our requirements. Secondly, in the proposal call that we issued for the new program in December [1992], we had a section on conflict of interest which not only laid out the requirements for its declaration, but also the requirements for

business practices that would flow from any particular constellation of declarations.

The new system is to provide "clear parameters" and a fair appeal process for a sponsor's assessment. The process includes instructions on conflict of interest in the application, and outlines the standard practice for dealing with such cases and the appeal process. The Directive includes provisions for the disclosure/declaration requirements.

The objective and scope of the directive is as follows:

. . . conflict of interest provisions have been developed to assist non-profit housing corporations/cooperatives . . . in identifying and dealing with potential or actual conflict of interest situations which arise as a result of retaining a Development Consultant/Resource Group . . .

. . . the Consultant acts both as a Consultant and as the agent of the Housing Provider and when acting on their behalf cannot benefit personally from a dealing or transaction. The Consultant must always act only in the best interest of the Housing Provider. They cannot be retained by the Housing Provider to perform additional work for them in some other capacity which might conflict with this duty.

As noted by the audit team, it was not proved that conflict situations contributed to project costs. Potential conflicts of interest by project consultants in situations in which the development consultant and the architect are the same individual or firm were addressed. A conflict may arise in cases in which professionals have a financial interest in a project and also have a contract for professional services.

The Committee concluded that the Directive is an important step in addressing potential conflicts of interest, but that the application of the Directive should be monitored. The Committee stressed the importance of applying the Directive to ensure that conflicts do not occur.

The Committee therefore recommends that:

5. *The Ministry of Housing should review the application of the Conflict of Interest Directive at the end of the first year to assess compliance.*

July 1993 Ministry Response

The Ministry supports this recommendation. In order to ensure that enough experience can be reviewed, the Ministry would suggest reviewing these guidelines at the end of fiscal 1993/94.

October 1993 Ministry Response

The ministry supported the draft recommendation to review the conflict of interest guidelines at the end of 1993/94. An action plan for this review has not been developed nor has the final decision been made as to who would conduct the review. However, the Ministry expects that the review will be conducted by the Regional Office staff who are implementing the guidelines.

Maximum Unit Price Not Adjusted When Costs Declined

The maximum unit price concept allows the project sponsors discretion within a price control system. At issue is whether MUPs are adjusted on a timely basis to address cost increases and decreases reflecting the local market conditions in land and construction prices. It was concluded in the audit report that "in the absence of more competitive approaches to project selections many project sponsors and developers viewed MUP as the target price." The Auditor made the following recommendation on the use of the maximum unit price system:

MUPs [should] be adjusted downward to reflect significant decreases in market prices and that more competitive approaches to selection be followed wherever feasible.

In its response to the audit report, the Ministry indicated that the responsiveness of MUPs to local markets was under review. According to the Ministry, the maximum unit price was increased during the period 1987-1989, but in 1990-1992

it was not adjusted, although the market had altered. The Ministry did not price adjustments at the time because of several factors:

The impact of the GST on our cost structure . . . was not perfectly clear.

. . . in 1991, the market adjustments to the turn in the general economy were uneven. We're still seeing transactions in the land market . . . The process that the market place went through to adjust was — it took a while, and we had trouble tracking what was the real underlying trend in all this, what evidence should we rely on.

. . . the MUP was left in place but pressure was exerted at the level of individual projects over the course of the year . . . So as we were dealing with real projects we were experiencing cost reductions, but we got at it differently than using the general MUP. We got at it specifically through the projects. We have of course since reduced the MUP, because the shape of the change is stabilized and we understand it better.

The Ministry is in agreement that the MUP has not been effective in tracking the market in all cases and that it is not an ideal measure to control capital costs. The MUP will be reviewed to deal with cost elements, particularly with respect to the capital cost structure. The new system will be based on cost components tracking real costs and less a single cost figure for a broad market, which was the practice in the past. It will be broken down to account for development charges which vary among communities with diverse municipal charges. The new cost control instrument is to be more responsive to the market place.

According to the Ministry's Program Expenditure Review the following steps will be taken on maximum unit prices:

- unbundle MUP for analysis to generate norms (land, building, soft costs, contingencies); and

- improve sensitivity of MUP to actual market conditions.

Under the program, sponsor groups are permitted to purchase existing building for conversion to non-profit housing. The Auditor's survey of prices during 1989-1991 indicated that the Ministry paid "substantially higher [prices] than the going rate." The Ministry concluded that "the purchase price paid for existing rental buildings reflected fair market value at the time that they were acquired," based on actuals. The Ministry's calculations indicated that in Metro Toronto in 1991, the "actual average" purchase price paid represented a 19% drop from the 1989 average price.

The Committee supports the Ministry's initiative to review the MUP system with respect to allowable capital costs and responsiveness to market fluctuations. In addition, the Committee is of the opinion that the new system should make adjustments for market fluctuations on a timely basis and that the regional costs and economic conditions (e.g., material costs and labour) should be primary considerations. The Committee stressed the importance of using the actuals to assess the effectiveness of an improved methodology.

The Committee therefore recommends that:

6. *The Ministry of Housing should develop an improved methodology to control capital costs which would include an assessment of the "maximum unit price" system. The new system should be capable of assessing market adjustments and establishing revised cost structures on a timely basis.*

July 1993 Ministry Response

The Ministry supports this recommendation and had initiated a review of the maximum unit price system as part of the Non-Profit Program Review.

October 1993 Ministry Response

Response following Recommendation No. 7.

The development industry should be made aware that MUP or an alternate system used to establish unit prices should be a guideline and not a target.

The Committee therefore recommends that:

7. *The Ministry of Housing should take steps to ensure that the maximum unit price system or an alternate pricing method is understood in the development industry to be the maximum permitted price only and that negotiations should be pursued on this basis.*

July 1993 Ministry Response

The Ministry supports this recommendation.

October 1993 Ministry Response

The Ministry is working towards improving the methodology used to cost land and housing on Provincial unilateral programs.

The general approach will be as follows:

- Costing of land will be separated from construction and soft costs;
- Costing guidelines will be given to non-profit housing groups to be used as benchmarks;
- Revised technical standards will be costed and used as pricing benchmarks;
- Construction agreements will include savings incentives based on delivery.

The Ministry is also revising the technical standards for construction. Construction models will be designed to apply a benchmark cost to the technical standards. This will be adjusted quarterly to reflect market adjustments.

Costing guidelines are being developed for all soft costs (consultants etc.) and will be based on [the] level of services rather than number of units or percentage of capital cost.

The status of this project is as follows:

- Appraisal Guidelines are in final draft form;
- Consultation with appraisers, architects and construction industry on technical standards is underway
- Revised construction documents are in final draft form, with consultation complete;

- Costing guidelines will reflect revised consultants fees as well as emphasis on tendering for products and services. These are in final draft form.

Action Plan

Map existing non-profit programs	June-July 1992
Analyze Framework & other documents Capital Cost Study	Aug 1992
Develop Approach to MUPs & Capital Costing	Sept-Dec 1992
Design Capital Costing Process	Jan-Feb 1993
Produce Program Documents Draft Form 1414	June 1993
Draft Program Guidelines Form 1414	June 1993
Revise Technical Standards	Sept 1993
Consultation	Oct 1993
Finalize Program Documents Finalize Form 1414 Finalize Program Guidelines Form 1414	Nov 1993
Draft Program Guidelines Estimate of Value	Nov 1993
Construction Costing Model	Dec 1993
Component Complete	Jan 1994

It is expected that the consultation process along with the publication of guidelines will assist in the greater understanding by the development industry of the capital cost control system.

Other Reasons for High Development Costs/Controls During Construction

The Provincial Auditor identified a number of additional factors that have contributed to development costs:

- land purchases without studies of contamination and clean-up costs;
- development consultant fees based on total project costs and not services delivered; and
- administrative delays at the community level to meet various municipal requirements.

Furthermore, the audit team noted that Ministry inspectors in the Central and Southern Regions did not complete the construction site inspection reports on a regular basis, as required. The Ministry has addressed the environmental clean-up requirements and the issue of consultants' fees. Also, the Committee addressed the subject of development costs in the public and private sectors. This subject has been included in this Section of the Report.

Consultants' Fees

The Committee questioned whether the consultants and architects are acquired on a competitive basis. According to the Ministry, professional administrative expertise is a program requirement. These professionals are collectively grouped in the "project management" function and provide development expertise.

The Committee asked the Ministry for elaboration on the role of consultants in the program, the selection process and the required qualifications. The Ministry explained the role of project managers as follows:

. . . a real estate project, development of a building or the purchase and rehabilitation of a building requires project management . . . there are several ways to get, acquire, have, demonstrate that you've got the project management skills on your team. In the case of some organizations, and particularly the municipalities, they have it as a part of their permanent staffing arrangement, and this funding line goes to support the professional development staff . . . for example, when they're doing their own development.

The Ministry indicated that project management is required to deliver a real estate project because the Ministry does not have the direct development resources or property management resources. These professionals are seen to be an essential component in community-based housing.

The Ministry indicated that the practice has been to follow a "guideline-based system." The fee structure is to be based on actual work performed, that is, fees for services delivered and not a percentage of capital costs. The development consultant fee was 2% of program costs; now it is in the order of 1.4%. The guideline has been replaced by a fee-for-service system for actual costs. The fee is based on a detailed work plan with cost allocations for the project components. On the basis of this new approach costs have been reduced for "organizational expenses" incurred by consultants, which could include difficult community development issues and planning approvals.

The non-profit project sponsors are not necessarily required to hire a general project manager or development consultant; however, the Ministry requires a competent team with recognized qualifications. Some groups may rely on the professional resources of the municipality.

Development Consultants

The Committee discussed whether some development consultants have a preferred status. The Ministry does not issue tenders for projects, nor does it have the authority to identify development consultants for projects. The sponsor groups make the decision on the selection of a project development consultant.

According to the Ministry, it has "the capacity to assess the proposal made by the non-profit sponsor," and it approves the business transactions on the basis of program practice.

The Ministry's position is as follows:

We don't make judgements about who non-profit cooperative corporations do business with . . . What we make judgements about is whether the proposals they make meet the program's objectives and are credible in terms of tests that have to be applied to cost, timing and quality of the proposal.

. . . there are requirements in our last proposal call that are clearer and . . . tougher than they have been in the past. So we are, without question, trying to make that business practice better . . . But we're not making judgements in the Ministry about with whom non-profits and cooperatives do business.

The Committee is of the opinion that all qualified development consultants should have an equal opportunity to submit tenders for non-profit housing projects.

Ministry business practices should define the relationship between sponsor groups, provincial officials and development consultants, with respect to eligibility for tendering. The Ministry's procedures on the assessment of proposals should ensure that the tendering procedures encourage all qualified developers to submit proposals.

The Committee therefore recommends that:

8. *The Ministry of Housing should adopt a directive to ensure that all qualified development consultants have an opportunity to tender on non-profit housing projects in a competitive format.*

July 1993 Ministry Response

On the issue of qualification

As was discussed at the committee meeting, the Ministry does not qualify development consultants or resource groups. The co-operative sector organization does accredit resource groups wishing to develop co-ops, but the Ministry does not require this accreditation as a condition of funding approval. If a non-profit/co-operative housing sponsor requests information on an appropriate resource group or development consultant, the Ministry provides a

list of all development consultant/resource groups operating within the given area.

On the issue of tendering for services

Development consultants and Resource groups often work with a group far in advance of Ministry involvement. For this reason, tendering for services may be problematic. However, the Ministry is also concerned with the level and cost-effectiveness of fees provided to these organizations and will be implementing a fee structure which is based not on a percentage of capital cost but on the services which are provided.

An appropriate fee structure which reflects the services provided can achieve economy, efficiency and cost effectiveness without requiring that services are tendered.

October 1993 Ministry Response

The ministry is implementing improvements in defining the role and remuneration of development consultants and resource groups as part of the **jobsOntario•Homes** Program.

An Information Handbook for Sponsor Groups on planning for, hiring and managing development consultants will be available in November 1993. This is the first time that the Ministry is clearly identifying the service structure and fee structure for development consultants.

The service structure details what services the Ministry will pay for and the fee schedule dictates what development consultants will be paid. The approach for the new fee schedule will entail a base fee plus a declining scale based on the number of units. The new base fee approach is expected to result in lower development consultant fees. In the handbook there will be guidelines for groups on selecting consultants.

The handbook will give the Sponsor Group information on a range of items from the role of the consultant, what to look for, and where to go for help, to sample interview questions. The guidelines found within this handbook will assist sponsor groups in the selection of development consultants. There will be no mandatory selection by tender but groups will be encouraged to select development consultants on a competitive basis.

The Ministry wants to ensure groups have a choice in the selection of development consultants by encouraging them to go through a competitive process while giving them the option of selecting a consultant that they have worked with over the past year in submitting their initial application.

The Ministry is currently in consultation with the sector organizations; (Ontario Non-Profit Housing Association, Co-operative Housing Association of Ontario, and Association of Development

Consultants of Ontario) with regards to the revised service and fee structure. The revised service and fee structure will be included in the handbook on planning, hiring and managing development consultants and resource groups.

Action Plan

Map existing non-profit programs	June-July 1992
Analyze Framework & other documents	August 1992
Develop Approach to Consultant Service & Fee Structure	Sept-Dec 1992
Design Service & Fee Structure	Jan-Feb 1993
Draft Handbook Consultants Consultants\Resource Groups	July 1993
Consultation	Sept 1993
Finalize Program Documents & Finalize Handbook for DC/RG	Oct 1993
Component Completed	Dec 1993

FINANCIAL CONTROL AND ACCOUNTABILITY

The Auditor assessed the Ministry's control over completed projects, specifically, the monitoring of costs and compliance with program guidelines. It was concluded in the audit report that controls were not satisfactory to ensure cost-effectiveness in management and program compliance.

In some cases annual budgets and audited financial statements had not been filed on a timely basis and/or had not been reviewed by the Ministry. Operating agreements between the Ministry and the non-profit sponsor groups are an important accountability mechanism to ensure that program objectives are met and all interests protected.

Operating Agreements

The Committee indicated to the Ministry that the operating agreements are an important mechanism to ensure accountability between the province and the sponsor group. The agreements should cover administration and financial matters, the sale of assets and reporting requirements.

Although such agreements are required, they had not been negotiated with the Ministry at the time of the audit. According to the Ministry, the matter of operating agreements is being addressed:

The Ministry has recently completed the consultations with the cooperative housing sector on the F/P [federal/provincial] Co-operative Operating Agreement. Ratification of these agreements by all F/P co-ops is expected soon. Other outstanding agreements should follow soon afterward.

At the present time many projects are operating on memoranda of understanding according to the Ministry:

We've . . . laid down the framework of issues and timing . . . [for operating agreements] with the non-profit providers and to complete a structure of an agreement and get it executed . . . most people have some level of agreement with us, but I agree . . . this is not a proper long-term way of doing business and it was a criticism made in the auditor's report, quite rightly, that we should get on with it and finish this process and replace the memoranda with full operating agreements.

The work plan to finalize the basic operating structure with municipal and private non-profit units is being completed, according to the Ministry. It has taken four years to complete the first phase of the discussions, and the Committee expressed concern at the delay in the negotiations. The structure of the agreements was to be completed in July 1993, and was to be followed by the implementation.

According to the Ministry, the regional offices will be more active at the program level both in terms of addressing local housing market conditions and with respect to the proposed operating agreements.

The Committee noted that the Ministry is in the process of finalizing the outstanding operating agreements. These documents are essential to the public administration of housing projects in such matters as tenant placement, equity of access and ownership. Furthermore, they provide basic statistical data required in assessing compliance and accountability.

In conclusion, the Committee is encouraged by the Ministry's recent initiatives to further the execution of these agreements. The delay in finalizing these documents has been a primary concern during the hearings. The Committee has concluded that to avoid the current delays experienced by the Ministry, operating agreements should be executed prior to the occupancy of the housing units.

The Committee therefore recommends that:

9. *The Ministry of Housing should expedite the execution of the outstanding operating agreements for non-profit housing projects. Furthermore, a Ministry policy should be introduced to ensure that the standard conditions of operating agreements are provided to sponsoring groups at the outset of projects, and to require that operating agreements are executed for all future non profit housing projects at the earliest practical opportunity, but in any event, prior to occupancy.*

July 1993 Ministry Response

The Ministry completed its consultation with the Co-operative Housing Association of Ontario on the form and status of the project level operating agreements for co-operatives operating under the Federal/Provincial Non-Profit Housing Program, Homes Now, Project 3600 and Project 3000. Following the completion of the agreement, training of staff and co-operative sponsors was undertaken. Most agreements have been forwarded to co-operative sponsors for their signing and some agreements have been signed and sent back to the Ministry. Some delays in signing have resulted because the co-ops

must wait for their next Board of Directors meeting and have consultation with their own legal counsel, prior to signing the agreement.

October 1993 Ministry Response

Recently, the operating agreement for co-operatives has been sent to groups. The Board members are having their legal counsel review the agreements, resulting in some delay in executing agreements. The Ministry estimates that it may take six months to have all agreements executed. A copy of the work plan for co-operative operating agreements is attached as Appendix 8.

The Ministry is currently developing operating agreements for private non-profits and municipal non-profits. The development, dissemination and execution of these documents will require up to fourteen months.

All projects currently have signed a Memorandum of Agreement which requires them to sign the operating agreements when they become available.

Budgets and Financial Statements

A procedure to address outstanding approvals and reconciliations has been introduced to ensure that project budgets are approved and that subsidy payments are reconciled to audited financial statements, according to the Ministry. The Ministry has acknowledged the need for the "timely review and approval of budgets and statements." The Ministry will be introducing a monthly reporting procedure in conjunction with the project operating agreements.

According to the Ministry, the backlog in the budget reviews, financial statements and final capital cost statements for projects has been reduced since the audit. The target is to eliminate the backlog this year, with the exception of 275 documents with specific problems, including liens, insolvency etc. (Appendix 7).

The Committee is of the opinion that financial controls should be in place and that all expenditures should be justified.

July 1993 Ministry Response

Through the jobsOntario•Homes design process, the Ministry has undertaken a complete review of its budgeting, reporting and subsidy framework. The objective of this review is to revise and upgrade the non-profit budgeting, reporting and subsidy process in order to implement the Housing Framework Directions. The review will also simplify and streamline program administration in order to ensure that the backlog of approvals such as those identified by the Auditor do not occur. Successful completion of this project will ensure the reform of the Ministry's business practises with respect to funding non-profit corporations and will ensure a successful implementation of the funding portion of the jobsOntario•Homes Program. Specifically the project involves the design of the subsidy systems, design of accounting requirements, program documentation, production of documents, forms and manuals, software development, consultations and reports. This review is expected to be completed by January 1994.

On the issue of the remaining backlog of audited capital costs, financial statements and operating budgets, the Ministry continues to make progress. The attached report [Appendix 10] indicates the number of projects which have been cleared since the project was started last year.

October 1993 Ministry Response

The ministry provided its action plan and an update on progress of clearing the backlog of final capital cost statements, financial statements and operating budgets to the committee on September 13, 1993. A copy of this information is attached in Appendix 7 for reference.

Detailed Cost Analysis

The financial arrangements for non-profit programs are comprised of several basic components: namely, interest free loan guarantees for start-up; private sector loans for capital costs; bridge subsidies for the difference between the market rent and the break-even rent; and subsidies for the difference between the market rent and the rent-geared-to-income rent.

On the basis of the Provincial Auditor's review of unit operating costs compared with controllable costs, it was concluded that:

- the non-profit projects sampled had higher controllable costs than the Toronto private rental accommodation; and
- selected Toronto projects had monthly operating costs over two and one-half times more expensive than Toronto private rental operating costs.

The Provincial Auditor concluded that there were significant cost differences in three areas: replacement reserves, administrative costs, and labour and related costs. The Auditor made the following recommendations to reduce these costs:

- basing replacement reserves on the estimated timing and costs of repairs and replacements of capital items such as roofs and appliances rather than on a flat percentage of the total capital cost of a project;
- basing administrative costs on the number and mix of units rather than a flat percentage of the total operating and financial costs of a project; and
- better monitoring of labour and related costs in relation to a reasonable standard.

To identify options to enhance cost-effectiveness, the Ministry in 1991 initiated an expenditure review of the non-profit and cooperative programs . The Ministry is attempting to reduce capital costs by modifying the tendering process and encouraging price competition, for example, in jobsOntario•Homes. Under the Program Expenditure Review, the Ministry has taken steps to reduce net subsidies through the enhanced efficiency of administration and management practices in the area of operating expenditures for account lines (e.g., guidelines/norms for budget review and forecasting). The Ministry is limiting project operating budgets, improving mortgage arrangements, introducing bulk purchasing for expenses such

as insurance, etc., improving utility efficiency, reviewing the funding of replacement reserves and increasing "low-end-of-market" rents.

During the same period a consultation process was underway, which resulted in a policy review. The program review of administrative practices, the policy review and the audit report have resulted in the Ministry's consideration of administrative practices in the program. In addition, standards are to be defined on the capital and operating sides with the objective of developing an incentive-based-operating budget to replace the envelope system.

The Provincial Auditor noted in the project budget process that some regions reviewed unit expenditures by cost category. This approach has permitted comparisons of costs among projects and a check for compliance with Ministry guidelines. The Committee concluded that the Ministry should conduct cost comparisons to help ensure value for money in unit expenditures.

Financing Costs

The capital costs of non-profit housing are financed through funds borrowed in the market place. The projects have a mortgage on the real property; therefore, the province does not provide the capital. According to the Ministry:

What we [the Ministry] provide are funds each year to each cooperative and non-profit that operates to ensure that they can provide access to low-income households and to bridge the cost difference between market rents and economic rents. We are not providing the mortgage financing as provided by the private sector.

The Committee addressed the issue of provincial guarantees on public housing mortgages. The matter of liability in the event of a mortgage default was of concern. The Ministry explained that mortgages are secured by the real estate and that at present approximately \$7 billion in residential mortgages are in the non-

profit and cooperative housing sectors in Ontario, including over \$3 billion in "Homes Now". According to the Ministry it has an agreement "to support operating costs under the terms and conditions of the program." In the event of a default on a mortgage, the project is usually assumed by another operator.

Options to reduce operating costs and provincial net subsidies are being addressed in the Ministry's Program Expenditure Review. A number of factors are being discussed, including marketing, rent levels and the mix of units in non-profit buildings, for example, rent supplement units. The Ministry is also re-evaluating the front-end costs of new initiatives.

The Ministry acknowledged that it is difficult "to devise a fair, general capital cost control" and, therefore, the controls are to be re-designed through a refined instrument in the new program. The Committee is of the opinion that steps should be taken to ensure that the Ministry is able to adjust prices to take advantage of fluctuations in the market place, while respecting the limitations on flexibility imposed by long term financial commitments required in the mortgage industry.

The Committee therefore recommends that:

10. *The Ministry of Housing should conduct periodic assessments of the proposed capital cost control system to ensure that procedures are responsive to market conditions and that potential savings are assessed and realized.*

July 1993 Ministry Response

The Ministry supports this recommendation.

October 1993 Ministry Response

Periodic assessments of the capital cost control system will become part of the process noted above.

Replacement Reserves

The replacement reserve system is under review for several reasons. The reserve concept is based on a flat percentage of the capital cost in a single guideline for the system. An assessment is underway to determine whether buildings should be differentiated, taking into account the projected requirement of capital reserves. The program review is considering alternatives, for example, the pooling of the replacement reserves for sponsors with many buildings and the treatment of those with a single building. Also, the administrative rules are being evaluated to permit alternative investment forms to achieve a higher investment return on reserves.

Operating Costs

The Provincial Auditor noted that operating costs varied for cooperatives and non-profit projects. The Ministry indicated that these costs are under consideration in the program review. According to the Ministry, public housing is more expensive to administer and maintain than private housing for several reasons:

On the administration side, we [Ministry] require non-profit, cooperative and public housing landlords to incur significant administration costs because of the program administration requirements . . . They have to run tenant intake and placement systems. They have to assess people's incomes. They have to reassess them every year. There are a series of administrative practices that they must follow that go beyond what any private landlord would have to do.

On the maintenance side, we spend more money per unit on maintenance in a general way than is spent in the private sector per unit per year. Partly, I think that's because these are public services and people expect a consistent high standard, and that perspective or approach, a consistent high standard, is what is built into budgeting and program delivery on the maintenance side of things.

The Provincial Auditor noted that controllable costs (e.g., administration and labour) in the non-profit program were higher than in the private sector. The Ministry is committed to addressing operating costs. According to the Ministry's letter of March 5, 1993:

The initiative to develop norms and standards for operating costs should provide the Ministry and non-profit housing sponsors with the tools to assess requirements and to fund at appropriate levels, starting in the 1994 budget year. In addition, the Non-Profit Program Review has begun to address some of the operating costs issues.

The Ministry is addressing the problem of variation in the distribution of costs in social housing groups. Cost are being reviewed, including basic operation supplements. Social housing operating costs are to be defined on the basis of norms and standards taking into account any cost differences between the public and private sectors. According to the Ministry, cooperative housing has the lowest operating costs, followed by the private sector. The public housing projects are the most expensive.

As outlined in *Consultation Counts*, the Ministry will be introducing an annual transfer payment mechanism to cover ongoing operating costs, rather than implementing a budgetary review process. The object is to achieve predictable results and cost efficiency. As part of its cost reduction measures, the Ministry is also addressing operating costs by establishing bulk-purchase pools for utilities, an incentive-based budgeting system, a review of the inequities in the property tax assessment, cost reductions in operating budgets, and various conservation measures. To reduce operating costs, the Ministry introduced reforms to provide mortgage financing on a more cost-effective basis, such as an accelerated refinancing model.

The Committee expressed concern that a mix of incomes and integration of units in buildings is not being achieved in all instances. Some projects, for instance

with predominately rent-geared-to-income units, could affect long term commitments. At issue is whether the projected operating costs for the mid 1990s may exceed the projection of \$1.2 billion due to an imbalance in mix.

The Ministry explained that expenditure forecasting is not exact and that factors such as interest rates and construction costs will affect long term cost projections. The Ministry noted that current forecasts for periods two to three years in advance indicate reduced total expenditures, which are attributed to reductions in construction costs, interest rates and land costs. Also, over the past 18 months, the Ministry has applied constraints on operating costs to address expenditures over the next three to four years.

The Committee is supportive of value for money initiatives to address operating costs over the long term, subject to policy commitments on the supply of units.

The Committee therefore recommends that:

11. *The Ministry of Housing should assess projected operating costs for the non-profit program over the long-term with the objective of identifying potential supplementary expenditure requirements. Also, variations in operating costs, such as unit expenditures by cost categories, among housing projects should be addressed through cost comparisons to establish acceptable guidelines on a per unit basis.*

July 1993 Ministry Response

The Ministry supports this recommendation and has initiated the process of establishing budget norms and standards for operating costs. These norms and standards will assist the non-profit housing sponsors and the Ministry in establishing and monitoring operating costs in non-profit housing projects.

October 1993 Ministry Response

The Ministry of Housing had previously initiated a norms and standards development process. A team has been established to review operating costs for the non profit program. The information will be used to establish a provincial data base of budgetary and actual costs. This will meet the following requirements:

- to determine future subsidy costs by program and year;
- perform trend analysis at a macro level to identify supplementary expenditure requirements;
- to provide guidelines to individual groups as to the acceptability of costs and initial project budgets.

It is the Ministry's intention to base a significant portion of subsidy flow to non-profit housing projects on operating cost norms and standards. It is understood that some kinds of operating costs, such as utility charges or property taxes, are probably not amenable to norms or standards.

The non-profit database will be developed and designed to facilitate the norms and standards exercise. However, the intention is that this data will also become a useful and long-term tool with which to explore a variety of program/policy related issues.

Where detailed cost data is not being captured by the existing system, steps will be taken to input this additional data into the database. The new non-profit database will also involve the maintenance of actual files containing the details of non-profit approved budgets and audited financial statements.

Activities in progress (1) Program staff visiting Regional Offices are gathering non-profit cost data (2) new data are being used by Field Operations staff to complete CHUMS database (3) Design for analytical database and plan for implementation including hardware/software acquisition well underway (4) review of applicability of individual cost items to norms and standards approach has begun.

Action Plan

Develop Approach to Operating Cost Component	Jun-July 1993
Design Database	Aug 1993
Finalize Data Collection (RHPOs)	Nov 1993
Data Cleanup	Jan 1994
Data Analysis of Norms & Standards	March 1994
Established Norms & Standards with Sectors	June 1994
Component Completed	June 1994

Annual Subsidy Costs

The Ministry's subsidies provide assistance in several areas; for example, in retiring mortgages and supplementing rent assistance for RGI tenants. (The subsidies are the difference between operating costs and the rents.) The subsidies begin after the construction period and may extend over a thirty-five year period. According to the Ministry, in the order of "75% of households are getting some level of rent-geared-to-income support." The Committee addressed the issue of increasing operating subsidies and the long term implications of this commitment. The province's annual expenditure for non-profit housing subsidies and support for 1992-1993 is as follows:

. . . non-profit housing subsidies and support, \$600 million; public housing, \$200 million; shelter allowances paid by the Ministry of Community and Social Services, \$2.2 billion; tax credits of various sorts, roughly another \$1 billion. In that particular year, I think about \$3.5 billion in total expenditures. . .

The Ministry's Program Expenditure Review is to assess the reduction in net subsidies through improvements in administration, management efficiency and bulk purchasing (e.g., insurance). A main objective of the program review is the reduction of the provincial subsidy commitment. Currently, there are eight non-profit programs receiving subsidies administered by the Ministry. The subsidy level is determined by four factors: capital and operating cost levels; the level of market rents; the share of RGI units in the project; and the federal involvement and contribution level. All of these factors are under review.

The Ministry's decision to move towards an annual transfer payment mechanism, rather than a budgetary review process, is to promote cost-efficiency and minimize the subsidy level. These changes are an attempt to address the problem of spending to the budget limit each year. In an effort to promote cost-effectiveness, local boards and managers will be required to replace incremental budgeting.

According to the Provincial Auditor, the average annual subsidy is \$12,500 per unit in Ontario and \$15,000 per unit in Metropolitan Toronto. The Provincial Auditor's figures were based on actual costs for completed projects and the average was calculated on a monthly basis as projects were completed. The projects being completed at the time of the audit had received approval during the period 1989 to 1991 and, therefore, were subject to certain high cost components. The Ministry explained that there are averages for the Ministry's portfolio, and the numbers in the audit report "are increments to the system that were in process at the time the audit was going on." These averages are higher because they were processed during a development period of rapid growth.

The Committee was interested in the average subsidy levels across the system prior to and during the audit period, in subsidy increments during the audit and in whether subsidies have dropped following the audit. These points are of concern because there was a reported discrepancy between the Ministry figures and those reported by the Provincial Auditor. The Ministry provided the Committee with average annual subsidy costs per unit for the period 1991/92 - 1992/93; these ranged between \$10,078 and \$11,483.

Tenant Placement

The Provincial Auditor questioned that the most needy were receiving housing in an "equitable and efficient manner." The audit report indicated that local housing authorities were not able to place needy applicants in non-profit units in all instances and that the referral system was not consistent. The absence of operating agreements and the need for formal procedures were cited as contributing to the problems. In conclusion, the Auditor stated that:

Multiple waiting lists and inconsistent placement criteria and referral practices make it unlikely that those in need of affordable housing will be treated consistently, equitably and efficiently.

The Ministry agreed with the Provincial Auditor's statement on access to residential units and indicated that the project operating agreements will be used to monitor and enforce tenant placement. According to the Ministry:

. . . the Auditor's comments on weaknesses on the access side . . . are quite consistent with what we heard in the consultation and quite consistent with what we believe internally to be weaknesses of the system that need addressing.

The Ministry explained that income integration and a diverse tenant population are basic goals of non-profit programs. The mix of residents in social housing, the proportions of households in need of assistance and market tenants must be maintained. The Ministry of Housing's referral policy provides to non-profit housing corporations/cooperatives two options with local housing authorities (LHA): a common housing priority list agreement with a LHA and a referral agreement to ensure access for the neediest clients from LHAs.

The Committee expressed concern that the allocation of units may not necessarily ensure that those with a substantiated need are being accommodated in the non-profit program. According to the Ministry about 20% of the units in the program are "occupied by people with physical disabilities or who are the frail [and/or] elderly." The Ministry explained that the 1991 consultation process on non-profit and co-op programs addressed this issue. It was indicated in *Consultation Counts* that new non-profits and cooperatives will be required to adhere to common access practices as a condition of funding. This would include an arrangement with the local housing authority for referrals. Access systems are to be defined and contacts established.

The Ministry is encouraging social housing providers jointly to address the issue of common waiting lists and universal access. According to the Ministry, the objective is to create "a situation where people can find it a lot easier to connect themselves to the doorways that would lead them to tenancy and non-profit or

cooperative housing." The Ministry explained that it is "a mandatory requirement of participation in the new program that people adhere to a more coordinated access system than has existed in the past." Provisions are being implemented to address projects in market areas with high vacancy rates.

The Ministry is attempting to coordinate on a broad basis with housing providers and service agencies. In addition, the Ministry is addressing a number of related issues, for example: production and management deadlines; resident participation; an improved allocation model based on local markets; operating agreements for good management practices and efficient operation; innovation in financing and planning for cost-effectiveness; integration with local planning strategies and environmental programs, and enhanced accountability and local autonomy.

In summary, to ensure consistency in access the Ministry explained that it is addressing the following:

- that housing providers must accept applications and they can no longer close waiting lists in the future, as some do now;
- all housing providers should list themselves in the yellow pages in a place that is consistent and accessible;
- that housing providers should clearly indicate that they operate within the framework of the Human Rights Code;
- that housing providers, from time to time, have to make it [known] through public information of one sort or another that they do have a waiting list or they do have vacancies;
- that housing providers must participate in a community housing directory, if there is such a format in their community;

- that the Ministry of Housing, which set up a 1-800 housing number, provides access to people who can't find local ways in; and
- that we [Ministry] explore other electronic and telephone-based systems for creating access to information and the doorway to non-profit and cooperative housing.

The Ministry explained that access is provided based on a priority-setting system. Clients should be informed of unit availability in the non-profit sector and should be told of their priority. The methodologies should provide effective assessment and ranking systems in a chronological order.

The Committee emphasized that tenant placement is central to the success of the program; that multiple waiting lists and inconsistent criteria and referral practices should be monitored in the future; and that the initiatives taken should be reviewed for compliance. In the past, inconsistencies in placement criteria, waiting lists and referral procedures have contributed to problems in the allocation of housing units.

The Committee therefore recommends that:

12. *The Ministry of Housing should establish a formal reporting mechanism for tenant placement to ensure that program objectives are achieved in a consistent, equitable and efficient manner. Regional offices should submit progress reports on tenant placement on the basis of formal tenant placement criteria.*

July 1993 Ministry Response

The Ministry supports this recommendation. As was discussed at the Committee, the Ministry is implementing a new access system for non-profit housing developments. This "people centred" approach to access will make it easier for applicants, particularly those who are members of disadvantaged groups, to gain access to non-profit housing by reducing institutional barriers.

October 1993 Ministry Response

The ministry is implementing a new access system for all non-profit housing developments. At the present time, non-profit and co-operative housing providers have referral agreements with local housing authorities which commit them to take at least one half of their "deep need" vacancies from the housing authority waiting list. These referral agreements are monitored by Regional Housing Programs Office staff both as part of compliance reviews and as concerns are raised by the local housing authority.

The Ontario Housing Corporation initiated a review of access in the Fall 1991. Concerns with access were also a fundamental part of the Housing Framework Consultation and Consultation Counts. At the beginning of June 1993, the consultation document "People-Centred Access - Design and Implementation Options" was sent to about 3000 groups (cross section of housing providers, service agencies, advocacy groups) requesting suggestions about how to implement the new access system for non-profit housing

During June and July, 28 workshops were held in 21 communities around Ontario (7 sessions were held in French). Many people who received the document took the opportunity to attend these sessions.

At these meetings, the design team was given suggestions about what needed to be included in tenant selection practices for social housing. Suggestions were also made about how communities could develop ways to co-ordinate access to make it easier for applicants to find out about and apply for social housing.

The program design team is now reviewing all the input from the consultation process to:

- develop procedures for tenant selection for the **jobsOntario•Homes** program which will form part of the operating agreement and a procedure manual for housing developed under that program;
- develop criteria and models for community-based, co-ordinated access systems and an implementation plan to achieve this in cost-effective ways;
- provide input to the Ministry team which will be looking at how these procedures and guidelines could be implemented in existing housing programs.

Operating agreements for housing developed under the **jobsOntario•Homes** program will contain the access plan agreed on between the Ministry of Housing and the housing provider.

Commitment to a Ministry of Housing approved tenant selection process may result in removing requirements for an LHA referral

process or it may mean taking referrals from a co-ordinated access system - details on the process will be developed by the Ministry of Housing's design team.

The design of procedures, guidelines and criteria for access will include monitoring processes to ensure that groups are in compliance with their operating agreements. Terms of reference for the access project have attached as Appendix 3.

Action Plan

Formation of Tenant Selection Review Committee	Spring 1991
Survey of Local Housing Authorities on access issues	Fall 1991
Report to OHC Board on access	October 1992
Research on existing co-ordinated access models	May 1993
Research on current operating agreements and tenant selection processes	May-Aug 1993
Consultation	June-July 1993
Work with communities interested in providing models for co-ordinated access	June-Sept 1993
Produce guidelines, processes and/or minimum criteria for tenant selection for jobsOntario•Homes - to form part of operating agreement and procedure manual	Aug-Oct 1993
Develop Ministry criteria and models for community-based, co-ordinated access including an implementation plan	Nov-Dec 1993
Provide input re: access to team negotiating changes to existing housing programs	Oct-Dec 1993

MANAGEMENT INFORMATION SYSTEMS

The Ministry does not have a general management information system to identify the costs and the status of each project. The Ministry explained the capabilities and weaknesses in its current information system as follows:

. . . we do have management practices and project management practices that deal with costs in individual files. Do we have the kind of general management information system that's been touched on a number of times this morning? Not in the form that's been described. Can we improve our management information system? Yes, we can, . . . we as a ministry believe in continuous improvement philosophically and these are things that we have improved since, . . . the time of the audit and will continue to improve.

The Ministry made the following comments on the benefits of a management information system:

We [the Ministry] could have, and should have, a management information system that makes it easier for us to get at policy issues and audit issues at the level of [the] whole program, but we do have information in our regional offices and in our files that's necessary for the good administration and the good delivery of the program.

The Ministry has a "directives and guidelines framework" for the review of project proposals in the regional offices. The Ministry follows standard business practices for program delivery, based on Management Board's directives.

Maintenance of Program Data

The Provincial Auditor's report identified overallocations in several Ontario regions based on incorrect Ministry data. The Ministry's consolidated report on individual client groups, for example, families, seniors, singles and special needs, incorrectly included projects that had been cancelled. Subsequently, the Ministry changed the system to record only those projects that proceeded to construction.

The Ministry agreed with the Committee that there had been a problem in recording and maintaining data. According to the Ministry, the "database provided [to the Provincial Auditor] was both inadequate and contained

mathematical errors." The Ministry confirmed the need to improve its data collection, modelling capability and the forecasting of the housing market. The Ministry is introducing a technical system to link the components of the program by connecting data to policy needs.

The Ministry's inability to provide the necessary data to the Provincial Auditor at the time of the audit is of concern to the Committee. In addition to the need for information on a program basis, the audit team required data that was not readily available. Understandably, the Ministry could not anticipate the scope and content of all such requests, but the capacity to assemble program information on request is essential to external program reviews. For example, the final audited costs or actuals for projects were not available in all cases as the projects had not been completed. Therefore, interim costs and forecasts were used in place of actuals.

The Ministry has made improvements in its technology, including an increased capacity for reporting from a field-based system. The Committee is of the opinion that the system should have the capacity to prepare information in response to requests on individual project costs, for example. The benefit of this capability was acknowledged by the Ministry.

The Provincial Auditor noted the Southern Region's success in negotiating competitive prices with the assistance of a computerized database to track market construction prices. Data on the delivery of the program at the project level is maintained at the regional office. The Committee noted in the Auditor's report that savings were realized in capital costs in the Southern Region. Competitive pricing through a computerized database was used to file market construction prices accepted by developers, contributing to competitive pricing and procurement practices. The Ministry explained that its ability to provide data from the project base system is limited. The Ministry recognized that the Southern Region's database is the preferred approach, and steps have been taken to introduce similar systems in the other regions.

The Committee therefore recommends that:

13. *The Ministry of Housing should develop a computerized database to track market construction prices accepted by developers across the province. This cost index should be used in all negotiations with the development industry on non-profit housing projects.*

July 1993 Ministry Response

The Ministry supports this recommendation. The Ministry has implemented a computerized data system in one region to collect non-profit capital cost information but additional information is required in order to have a more complete picture of market trends. The Ministry will implement a system to collect information on regional land sales, construction materials and labour costs. This information would demonstrate the probable trends in these costs.

October 1993 Ministry Response

The Ministry is developing a computerized database to track market construction prices accepted by developers across the province. This cost index will be used in all negotiations in the development industry on non-profit housing projects.

The system currently in place includes data on land, legal and architectural fees, taxes, appliances, landscaping etc. Due to other priorities, we have been unable to redirect resources. However, we have now developed a work plan that will ensure that this system will be in place within a year.

As part of the Social Housing 93/94 Information Systems work plan (Appendix 4) the Ministry is currently enhancing its Non-Profit Budget Review system and developing the "1414" Appraisal System.

These systems will allow staff to track market prices currently being offered by developers for developing non-profit projects. In addition, this will provide staff with up-to-date information which can be used in negotiations with the development industry for non-profit housing projects.

The Non-Profit Budget Review system will allow staff to track and analyze budget and financial information on projects including costs, revenues and subsidies.

The 1414 Appraisal System will provide:

- Project Cost Breakdown;
- Detail Unit Breakdown;

- Change Order Breakdown; and
- Tender Bid results.

Action Plan

Both systems are expected to be implemented by December 31, 1993. The action plan is attached as Appendix 1. This initiative is also part of the draft recommendation dealing with controls over development costs.

The Committee has concluded that the Ministry's management information capability should be evaluated to identify system requirements and specific program needs. A management information system is fundamental to cost-effectiveness and to ensuring value for money in program delivery. A system to improve accountability through the information base should be a Ministry priority. It would permit periodic evaluations against projections and comparisons with market costs in the private sector.

The Committee therefore recommends that:

14. *The Ministry of Housing should develop a central management information system for statistical data on the non-profit housing program to assist in program management and policy development. This system should provide access to program data and statistical information on individual projects.*

July 1993 Ministry Response

The Ministry supports this recommendation and has already begun the process of improving its systems to collect and process statistical data on non-profit housing programs.

October 1993 Ministry Response

In order to improve the central management of information the ministry is reviewing the existing systems, the Non-Profit Tracking System (NPTS) and the Community Housing User Management System (CHUMS).

The Ministry has developed a work plan that incorporates the following:

- Reviewing Business Practices,
- Redefining Mandate,
- Developing an Accountability Framework,

- Undertaking Preliminary Data Verification and Updating Missing Data.

The intent of the work plan is to develop a integrated information system which meets the changing needs of program management and policy development. In the past, systems development was determined by need and available resources. As a result, the current system lacks the necessary integrated approach to make the system adaptable to the Ministry's changing needs.

The information review adopts an integrated approach to the Ministry's information needs. In addition to providing program and statistical information on individual projects, the plan reviews and enhances the Non-Profit Tracking System (NPTS) and the following subsystems:

- A Budget Review System which will track budget and financial information on projects;
- A Subsidy System which will:
 - a) generate multi-cheque requisitions and;
 - b) provide forecasting tools for future subsidy payments;
- Appraisal system which provides various cost measures;
- Development assistance funding which provides project funding data.

In addition, the plan reviews the Community Housing User Management System (CHUMS) and develops a software system which indexes information in text files.

Data Verification Exercise:

In addition, the Ministry is currently reviewing the existing systems, (NPTS and CHUMS) in order to insure that all information is complete and accurate.

Ministry staff are currently in the process of performing time tests to determine time and resource requirements to undertake the data verification project. Based on these results, the data verification and updating of missing data will start in October and is anticipated to be complete by December 31.

Action Plans

A copy of Social Housing 93/94 Information Systems work plan for the next year is attached as Appendix 4.

The action plan for the data verification exercise is attached as Appendix 5.

Internal Audits

The Committee noted that the Ministry's housing field operations unit had not been audited for more than 12 years. Projects are subject to a final audit on costs in addition to the Ministry's internal audit processes. At issue is the need to address on a regular basis the problems identified by the Provincial Auditor. The Ministry indicated that although there had been periodic reviews of aspects of the program, there had not been a full audit addressing operations and compliance with policies and procedures. The Committee is of the opinion that some of the issues identified in the audit report should have been identified during Ministry audits.

The Ministry audits parts of the federal/provincial and provincial housing programs, including the sponsor groups, on a regular basis each year. The Branch has a multi-year cycle with an orientation toward financial audits, and, in recent years, toward value for money audits.

The Committee therefore recommends that:

15. *The Ministry of Housing should assess the scope and regularity of its internal audit practices for all areas of the non-profit housing program to determine program compliance with administrative policies and procedures.*

July 1993 Ministry Response

The Ministry supports this recommendation.

October 1993 Ministry Response

The ministry has refined its audit procedures of non-profit corporations. These audits are not just audits of the non-profit, but also involve a review of Regional Housing Programs Office administrative practices in relation to the non-profit, compliance by the non-profit, the probity of expenditures and any specific issues management indicate.

The review and refinement of the audit scope and procedures for non-profit audits have been completed and a copy of the audit program was recently provided to the staff of the Provincial Auditor. Besides the review of financial systems and controls, the scope of these audits includes a review of the following:

- the adequacy of Regional Office monitoring and direction provided to the non-profit.
- the effectiveness of the Board of Directors.
- third party performing management services.
- tenant selection and rent calculations.
- the probity of operating expenses per Ministry guidelines/operating agreements.
- replacement reserves.
- capital costs including developmental consultant charges.

These audits have become a part of the ministry's regular audits. Non-profits are selected based on consultation with Regional Office staff. For the 1993 fiscal year, the ministry expects to complete **18** non-profit audits. An increase in the number of audits completed in future years can be expected based on the learning curve experience. However, the number is difficult to forecast as it is also dependent on the size (the number of projects) and complexity of the non-profit providers to be audited.

Action Plan

The audit plan is attached as Appendix 6.

LIST OF RECOMMENDATIONS

1. The Ministry of Housing should review the provincial non-profit housing allocation system at the end of the first year of operation to ensure that the approval system is adequately staffed, the local market conditions are addressed and that the residential units are allocated in areas of proven need. (13)
2. The Ministry of Housing should develop a comparative model of the non-profit program to assist in program management and future audits. The methodology should permit management to compare completed projects and to monitor those in the development phase on a consistent basis and to report on cost-effectiveness on an ongoing basis. Projected development costs and final capital costs or "actuals" should be maintained on a project basis with reference to the three main cost components of land, construction and soft costs which would include insurance for example. (22)
3. The Ministry of Housing should assess the "Highest and Best Use" appraisal methodology to determine whether this approach is achieving value for money in non-profit housing real estate transactions. (24)
4. The Ministry of Housing should adopt a directive on competitive procurement practices to ensure that administrative procedures are followed to promote economy, efficiency and effectiveness in the development of residential units in the non-profit housing program. (27)
5. The Ministry of Housing should review the application of the Conflict of Interest Directive at the end of the first year to assess compliance. (31)
6. The Ministry of Housing should develop an improved methodology to control capital costs which would include an assessment of the "maximum unit price" system. The new system should be capable of assessing market adjustments and establishing revised cost structures on a timely basis. (33)
7. The Ministry of Housing should take steps to ensure that the maximum unit price system or an alternate pricing method is understood in the development industry to be the maximum permitted price only and that negotiations should be pursued on this basis. (34)

8. The Ministry of Housing should adopt a directive to ensure that all qualified development consultants have an opportunity to tender on non-profit housing projects in a competitive format. (38)
9. The Ministry of Housing should expedite the execution of the outstanding operating agreements for non-profit housing projects. Furthermore, a Ministry policy should be introduced to ensure that the standard conditions of operating agreements are provided to sponsoring groups at the outset of projects, and to require that operating agreements are executed for all future non profit housing projects at the earliest practical opportunity, but in any event, prior to occupancy. (42)
10. The Ministry of Housing should conduct periodic assessments of the proposed capital cost control system to ensure that procedures are responsive to market conditions and that potential savings are assessed and realized. (47)
11. The Ministry of Housing should assess projected operating costs for the non-profit program over the long-term with the objective of identifying potential supplementary expenditure requirements. Also, variations in operating costs, such as unit expenditures by cost categories, among housing projects should be addressed through cost comparisons to establish acceptable guidelines on a per unit basis. (50)
12. The Ministry of Housing should establish a formal reporting mechanism for tenant placement to ensure that program objectives are achieved in a consistent, equitable and efficient manner. Regional offices should submit progress reports on tenant placement on the basis of formal tenant placement criteria. (56)
13. The Ministry of Housing should develop a computerized database to track market construction prices accepted by developers across the province. This cost index should be used in all negotiations with the development industry on non-profit housing projects. (61)
14. The Ministry of Housing should develop a central management information system for statistical data on the non-profit housing program to assist in program management and policy development. This system should provide access to program data and statistical information on individual projects. (62)
15. The Ministry of Housing should assess the scope and regularity of its internal audit practices for all areas of the non-profit housing program to determine program compliance with administrative policies and procedures. (64)

APPENDIX 1

jobsOntario•Homes Program Processes

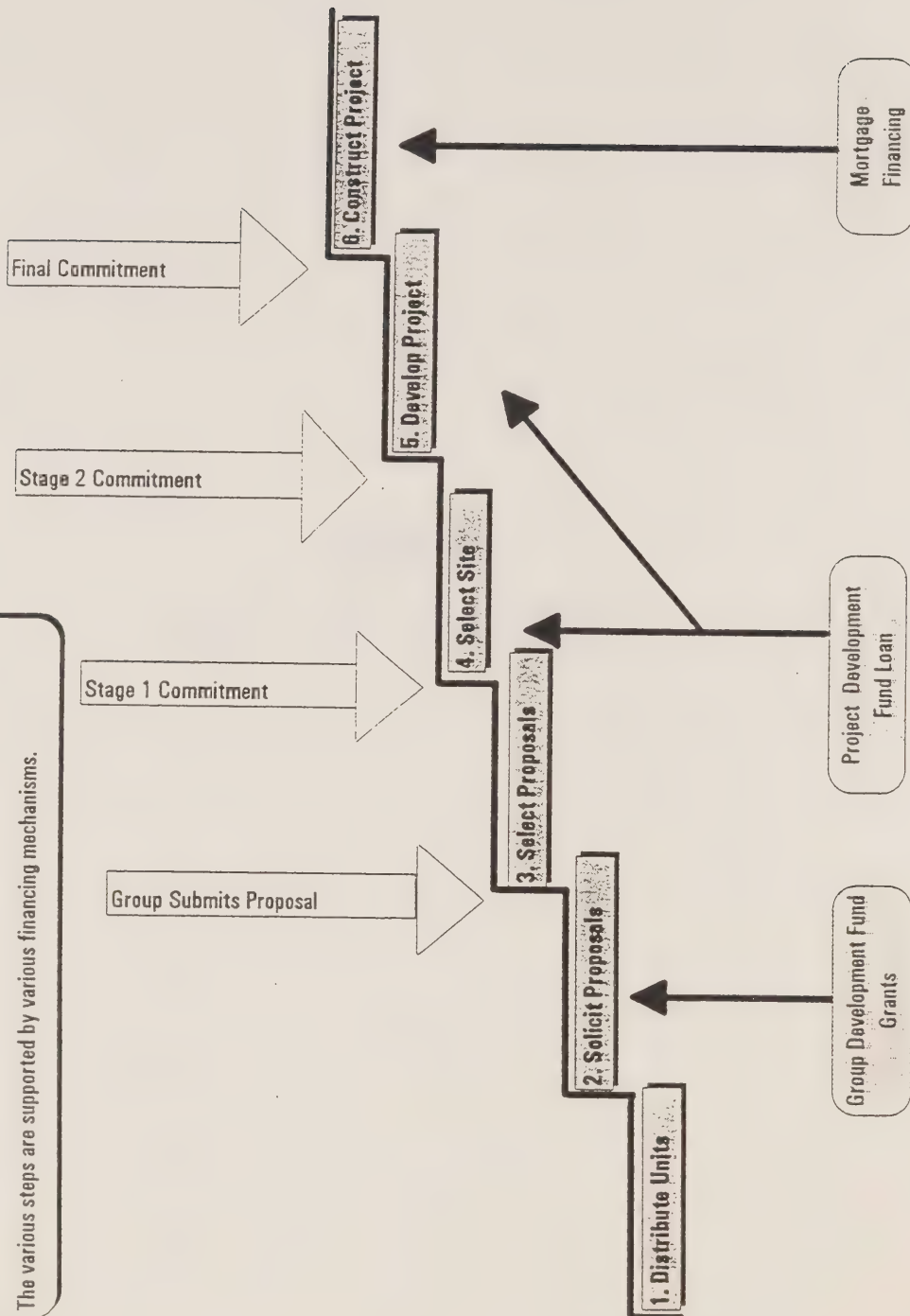
jobsONTARIOhomes Program

Scope: 2. Program Processes

The jobsOntarioHomes program consists of six fundamental steps.

There are four formal milestones at the end of four of these steps.

The various steps are supported by various financing mechanisms.



APPENDIX 2

1414 Evaluation System
Non-Profit Budget Review System

Branch: H F O

Non-Profit Budget Review System

Duration : Fiscal 93/94
Resource: Hanson Co
Tony Ferrari
John Popkin

Quarter 1

Apr

May

Jun

Quarter 2

Jul

Aug

Sep

Quarter 3

Oct

Nov

Dec

Quarter 4

Jan

Feb

Mar

[1] Budget Pilot

[2] Business Area Analysis

NP Business Systems Interface

Financial Statements

Reporting

o Hard code

o R & R

[3] SDLC Protocol

o Design

o Construction

o Integration

. Budget Module

. Financial Module

. Other NP Systems

o Implementation

[4] Implementation Review

Branch: Technical Services 1414 Evaluation System

Duration: Fiscal 93/94

Resource: Phil Greenall
Jeff Lahaas

Quarter 1

Apr

May

Jun

Jul

Aug

Sep

Quarter 2

Quarter 3

Oct

Nov

Dec

Quarter 4

Jan

Feb

Mar

[1] Enhancements

- o Links with other NP systems
- o Project cost Breakdown
- o Units Breakdown
- o Change Order Breakdown
- o Tender Bid result
- o Reporting
- o Other utilities

[2] Documentation

- o System Documentation
- o R&R System Reports
- o Information organization
- o Architectural Datasheet
- o Reporting

[3] Imp. / Training

APPENDIX 3

Terms of Reference - Co-ordinated Access
and Tenant Selection Project

REVISED
MARCH 30, 1993

TERMS OF REFERENCE

CO-ORDINATED ACCESS AND TENANT SELECTION PROJECT

OVERVIEW

The mandate of the project is to design tenant selection and "one-window" co-ordinated access models which are cost effective, improve access to social housing and meet the policy and operational objectives identified in the Housing Framework. Access and tenant selection systems need to be developed so that institutional barriers (eg. complicated application forms, many different selection processes, etc.) are reduced, equal treatment is ensured, prospective applicants find it easier to become informed about, apply to, and obtain accommodation in all social housing in a community.

OBJECTIVES AND PRINCIPLES UNDER HOUSING FRAMEWORK

The policy and operational objectives detailed in Consultation Counts as they apply to access issues will be reflected in the design and implementation of this project. Efforts will be made to:

- o Increase access to adequate and affordable housing suitable to peoples' needs.
- o Support the empowerment of individuals to help them obtain appropriate housing and to encourage and facilitate their participation in decisions affecting their housing.

The design of the co-ordinated access and tenant selection systems will conform to the following six principles outlined in Key Direction 3, of Consultation Counts, Adopting a "people-centred" approach to access:

1. The access system should maximize accessibility while still promoting the availability of housing to a full range of households and mixed-income communities.
2. Applicants should be aware of their housing options. One window access systems will be designed to assist applicants locate housing.
3. Timing of access should be predictable.

4. The access system should be simple and understandable.
5. The access system should give priority to those in need.
6. The access system should be flexible for both applicants and housing providers.

BACKGROUND

In Ontario there are a variety of different systems by which individuals who need permanent, affordable housing can find out what is available, place themselves on waiting lists and eventually obtain housing. By 1995 there will be approximately 1500 non-profit and co-operative organizations and 56 housing authorities managing housing communities. In a climate where demand outstrips supply, access to housing continues to be an important issue for both individuals seeking accommodation and the providers of housing.

One of the most widely discussed areas of the Housing Framework consultations was related to access issues. As a result, the Government of Ontario has established as their third key policy direction to introduce an improved approach to providing access to not-for-profit housing. By reducing institutional barriers, the Ministry of Housing wishes to make it easier for applicants, particularly members of disadvantaged groups and households who traditionally have not been able to access accommodation to be given a better opportunity to access non-profit, co-operative and public housing. The six principles referred to above outline the Ministry's new direction.

To date, most of the work on access issues has been done in connection with jobsOntario•Homes to ensure groups applying for new allocations have a basic understanding of what will be required around access. A "draft" discussion paper has been prepared outlining some preliminary design decisions and a series of options and alternatives that require extensive consultation before any decisions are made.

Following consultation on these issues as well as those related to co-ordinated access, the next step in the process is to design programs and delivery mechanisms which meet the policy and operational objectives stipulated in the Housing Framework.

PROJECT OBJECTIVES

- o Research and collect data on existing access co-ordination across the Province, document the extent of

the program delivery, analyze gaps in services and create an inventory of existing access models;

- o Review policies and operating agreements and consult on a process for implementing Provincial access principles, requirements and processes/criteria into existing housing programs;
- o Consult on tenant selection issues and develop processes and/or minimum criteria for the jobsOntario•Homes and existing programs which meet the access principles;
- o Develop the Ministry of Housing criteria for "one window" co-ordinated access systems and a process for reviewing existing and new proposals against the criteria;
- o Create new models or outline existing models for co-ordinated access systems;
- o Explore possible funding models for co-ordinated access projects;
- o Set up or work with existing community groups in five or six communities across the Province to develop co-ordinated access plans for their areas which meet basic Ministry of Housing criteria;
- o Explore potential role for current access committees/projects as vehicles for co-ordination of community access;
- o Propose other methods the Ministry of Housing can implement to assist in improving access (eg. public information lines, education, information campaigns, etc.).

TEAM MEMBERSHIP

Staff Work Group:

- o Frances Beard, Project Manager
- o Emilia Powroznik, Project Advisor
- o George Hough, Policy Advisor, Housing Policy Branch
- o Peter Shepherd, Program Advisor, Housing Programs Branch
- o Anne Allin, Policy Advisor, Tenant Support Service Branch
- o Emily King, Northwestern Regional Housing Programs Office
- o Rosine Kaley, Action-Logement
- o Other contacts as required. (For example, Ministry - Legal, Finance, etc.; outside organizations.)

Advisory Groups:

- o Tenant Selection Review Advisory Committee with slightly adjusted membership to balance representation from interest groups and include advocate and consumer representation. (The committee already includes staff from CHAO, ONPHA, OHC, LHA's, RHPO's and MOH.)
- o Set up mechanisms to allow for broad consultations to include representation from local groups (eg. consumers, groups promoting models of co-ordinated access) and such advocacy groups as CERA, ACE, OANHSS, the francophone community and other multicultural organizations.
- o Other Ministries and Provincial agencies

INTERNAL STAKEHOLDERS

The progress and results of the project will be reported to the Framework Implementation Steering Committee (FISC).

Progress reports as required or requested will also be made to ensure that the following internal stakeholders are kept informed:

Minister's staff
 Deputy Minister's staff
 Assistant Deputy Minister, Housing Operations
 Assistant Deputy Minister, Housing Policy
 Chair of Ontario Housing Corporation
 Executive Director, Housing Field Operations
 Housing Advisory Committee

RELATED MINISTRY ACTIVITIES

- o jobsOntario•Homes Program Design
- o Ontario Housing Corporation Policy Review
- o Access Committees/Projects Review
- o Supportive Housing Directions
- o Resident Involvement in Managing Social Housing
- o Lightman Commission
- o Partners in Housing
- o Aboriginal Off-Reserve Housing Consultation

METHODOLOGY

The work will be undertaken to allow for consultation with a wide range of stakeholders. Consultation mechanisms will ensure that consumers/groups representing consumers such as community groups/agencies, non-profit and co-operative housing providers, local housing authorities, Ontario Non-Profit Housing Association, the Co-operative Housing Association of Ontario, Ontario Housing Corporation and Ministry of Housing staff have input into the process. Tasks will be accomplished through work teams and an advisory group, formal meetings with concerned groups and review of documentation. Existing resources, such as the Provincial Access Committees, will be used to assist with the data collection for creating an inventory of existing access models.

TIME FRAME

A preliminary work plan is attached. A detailed work plan and timetable will be developed with the staff work team once the Terms of Reference are approved (early March).

A limited consultation process will be underway immediately to develop some basic access criteria for new housing developed under the jobsOntario•Homes Program with broader consultation following.

It is anticipated that the majority of the stated objectives will be either completed or well underway by the end of 1993.

Att. Preliminary Work plan

APPENDIX 4

Social Housing 93/94 Information Systems work plan

**DRAFT
FOR DISCUSSION PURPOSES ONLY**

Social Housing

93/94 Information

Systems Plan

Systems Development Services
Information Technology Services

Introduction

The Social Housing component of the Housing Operations Division is responsible for a variety of services surrounding the provision of social housing. This systems plan will focus on the IT activities of Housing Field Operations, Housing Programs Branch, Technical Support Services Branch and Tenant Support Services Branch.

Housing Programs Branch provide the necessary program **designs** aligned with the overall Ministry's directions for the management of social housing. This Systems plan focuses on Housing Programs' interpretation of the 'Accountability Framework' document and the integration of its principles in the P20,000 program design

Housing Field Operations is mandated to provide the **delivery** mechanisms for new program designs (such as P20K) to the field as well as the **administration** of existing programs (such as FP, P10K, etc). The Information systems designed to provide these functions has evolved over the last few years. Because of this evolution (systems and resources who designed these systems), the systems currently in place fall short of providing the necessary functionality for both program delivery and administration.

Technical Support Services provide the necessary technical support to the delivery agents (regions) for non-profit housing. This includes appraisal services and guidelines. Key to this Systems Plan is the delivery of a cost demographic system used by the delivery agents to negotiate non-profit projects.

The new community based approach to managing social housing has placed a great deal of emphasis on Tenant Support Services Branch and the full suite of support issues dealt with on a regular basis. The amount of tenant support documentations currently housed by TSSB has placed a need for a system to quickly find the location of specific support articles based on subject matter. This project brings in the use of a suite of software products classed as 'hypertext software'.

This Information Systems Plan focuses on both the business objectives and IT activities in the area of Non-Profit Housing (program design, delivery and administration) for the fiscal year 1993/94. Firstly, the information systems currently in place are profiled with information on current functionality and interfaces. Secondly, the business objectives necessary to stabilize these systems are outlined with the necessary high-level workplans (Appendix A) [REDACTED]

Finally, to assist in setting the business priorities within the HFO section a 'Systems Priority Committee' is to be formed (see Appendix B). This committee will set priorities and represent the client areas in managing the execution of this IT business plan.

HOUSING PROGRAMS

Business Systems

Although there are a number of project management, workflow engineering and other automation tools within this branch, there are no Business Systems in place that would automate the design process of housing programs. As the program design process has not been revisited for quite sometime, much of the activities in this area have not been automated at this point.

Business Objectives

[1] Design Activities

The only design activity planned for this area will target a maintenance system for program design. This system will facilitate the creation of documentation manuals, training aides, communication aides and decision support for program changes.

[a] Program Maintenance System

- ① Tie policy directions to program design.
- ② Cross reference design to procedural documentation.
- ③ Analyze impact to housing program.
- ④ Modify existing program to meet new initiative.
- ⑤ Make use of GUI for ease of use.

HOUSING FIELD OPERATIONS

Business Systems

The administration of Non-Profit housing programs (currently 9 programs totalling over 100,000 units) is currently automated by 3 main Information Systems with 2 subsidiary systems feeding off the main databases to generate forecasting and summary reports. Concurrent tracking of non-profit information is also done through the CHUMS system. Although no enhancement activities are planned (for 93/94) around this system, efforts are made to align the data structures of the CHUMS system and the equivalent suite of non-profit micro/LAN systems. The micro/LAN based systems are summarized below:

[1] Non-Profit Tracking System

The Non-Profit Tracking System (NPTS) tracks non-profit housing provider's application for units. Information is retained for the lifetime of the project (35 years).

[a] Categorical Information housed

- ⊙ Project information
- ⊙ Group information
- ⊙ Contact Information
- ⊙ Some financial information
- ⊙ Milestone tracking primitives (9)

[b] External links (exports)

- ⊙ NBRS (current)
- ⊙ NPSS (current)
- ⊙ Appraisal (proposed)
- ⊙ DASH (current)
- ⊙ TRANCHE (current)

The above links are critical to the overall management of non-profit projects. It avoids any data duplication by sharing 'tombstone' data with other non-profit information systems.

[c] System Functions

- ① Selection of Projects for allocation and commitment.
- ② Tracking through development and construction cycle.
- ③ Provides non-profit program control.
- ④ Tracks and forecasts construction starts and completions for estimation of job creation
- ⑤ Tracks and forecasts units coming under subsidy for budgetary forecasting and control
- ⑥ Database analysis presents information for policy purposes, senior management, minister's office request and public requests.
- ⑦ Provides mailing list system for non-profits.
- ⑧ Allows for regional project management for non-profits.

The head office database currently contains approximately 4500 group records of which less than 50 % has been recommended for construction. This database is updated monthly by merging the Regional NPTS database.

[2] Non-Profit Subsidy System

The non-profit subsidy system (NPSS) system generates multiple cheque requisitions for non-profit subsidy payments. This systems draws group and project demographics from the NPTS system. All additional subsidy information is key-entered at this point. In addition to multiple-cheque requisitions, this system also generates multi-year subsidy forecasting reports.

[a] Categoriic Information housed

- ① Program Accounts Budget
- ② Payments on Projects

[b] External links (imports)

- NPTS (current)
- NBRIS (proposed)
- CFIS (proposed)

[c] System Functions

- ⊙ Provides monthly budgetary controls including various reports.
- ⊙ Generate multiple cheque requisitions.
- ⊙ Forecasts multi-year financial requirements.

The use of the NPSS system to handle monthly internal reconciliation reports is currently being discussed. This would dictate further enhancements to the current system.

[3] Non-Profit Budget Review System

The budget review system (NBRS) records/tracks budget and financial information on projects. Added functionality include expenses and revenues tracking for the operation of the project on a yearly basis as well as the calculation of subsidies.

[a] Categorical Information housed

- ③ Budget specific Project information
- ③ Budget Information - { Costs }
 { Revenues }
 { Subsidies }
- ③ Financial Statements Information
- ③ Project composition information
- ③ Targeting plan.

[b] External links

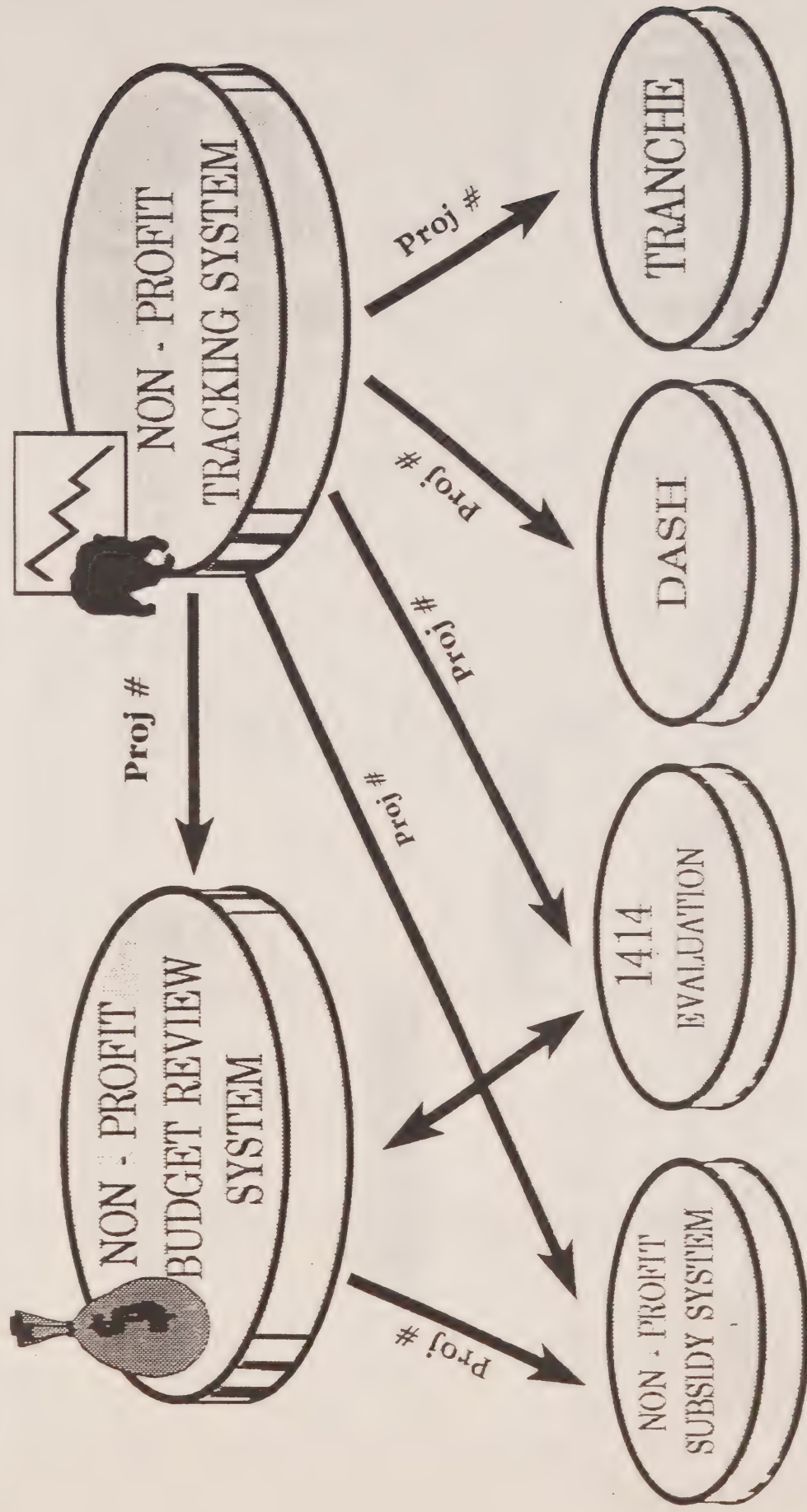
- ③ NPTS (current)
- ③ NPSS (proposed)
- ③ Evaluation (proposed)

[c] System Functions (in progress)

- ⊙ Will develop budget norms and standards for budget analysis
- ⊙ Will assist in analysis of budget submissions.
- ⊙ Will provide necessary analytical information for program design and analysis.

The schematic on the following page shows the Non-Profit Administration systems infrastructure as well as all associated dependences and information sharing. The bold arrows represent links to systems that are currently in place while the outlines represent proposed changes to further streamline the handoff and ownership of information.

NON - PROFIT INFORMATION SYSTEMS



• All systems are multi-user (Novell 2.15 and above)

Appendix A - workplans

Branch: Housing Programs Program Maintenance System

Duration : Fiscal 93/94													
Resource: Val Maksymluk													
[1] Business Area Analysis	Quarter 1			Quarter 2			Quarter 3			Quarter 4			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
[2] SDDC Protocol													
o Design													
o Construction													
o Implementation													
[3] Implementation Review													

Branch: H F O

Non-Profit Subsidy System

Duration : Fiscal 93/94
Resource: Maurice Jeffery
Janusz Woszczyzna

Quarter 1				Quarter 2				Quarter 3				Quarter 4			
Apr	May	Jun		Jul	Aug	Sep		Oct	Nov	Dec		Jan	Feb	Mar	

[1] Business Area Analysis

C F I S Interface

- o Analyze data repository
- o Identify new requirements

Business Year rollback Str.

'Additional' Requirements

- o Head Office requirements
- o C-RHPO specific req's
- o Additional reporting (R&R and hard code)

Technical Analysis

- o Development tools (C etc.)
- o Year 2000 Strategy

[2] SDLC Protocol



- o Design
- o Construction :
- o Implementation

[3] Implementation Review

C F I S					E C P											
C F I S					E C P											
E C P																

Non-Profit Budget Review System

Duration : Fiscal 93/94 Resource: Hanson Co Tony Ferrari John Popkin												
[1] Budget Pilot [2] Business Area Analysis NP Business Systems Interface Financial Statements Reporting o Hard code o R & R [3] SDLC Protocol o Design o Construction o Integration . Budget Module . Financial Module . Other NP Systems o Implementation	Quarter 1			Quarter 2			Quarter 3			Quarter 4		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	[Task]			[Task]			[Task]			[Task]		
	[Task]			[Task]			[Task]			[Task]		
	[Task]			[Task]			[Task]			[Task]		
[4] Implementation Review												

Branch: H F O													D A S H											
Duration : Fiscal 93/94																								
Resource: Ron Marciniak																								
[1] Business Area Analysis o Stratify PDF o Soil Remediation Findings o Public Accounts Requirements													Quarter 1			Quarter 2			Quarter 3			Quarter 4		
													Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
																								
[4] Implementation																								
																								

Branch: H F O

Regional Mailing System

Duration : Fiscal 93/94
 Resource: Diana Zung
 Janusz Woszczyka

	Quarter 1			Quarter 2			Quarter 3			Quarter 4		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
[1] Business Area Analysis o Enhance Database structure o Develop user manual o Implement in Regions	Job Ready			P20K								
	Job Ready											
	Job Ready											
[2] Implement Corp System o New postal standards o User Interface changes o Restrictions to HO data	Job Ready			P20K								
[3] Implementation Review												

Branch: Technical Services 1414 Evaluation System

[illegible]

Branch: Tenant Support		Resource Centre Infobase											
Duration : Fiscal 93/94		Quarter 1			Quarter 2			Quarter 3			Quarter 4		
Resource: Coop Student T B D		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
[1] Design manual process <ul style="list-style-type: none"> o Logical data grouping o Indexing method o Cross reference method 													
[2] Design Infobase links <ul style="list-style-type: none"> o Design logical views o Link logical views o Design menu system 													
[3] Documentation <ul style="list-style-type: none"> o Technical documentation o User documentation o Maintenance documentation 													
[4] Implementation													

APPENDIX 5

NPTS/CHUMS Review

WORK PLAN: NPTS/CHUMS REVIEW Duration: Now - June 30	PHASE 1 - NPTS				PHASE 2-NPTS/CHUMS		PHASE 3 - CHUMS			
	NOW	OCT 31	NOV 30	DEC 31	JAN 1	FEB 28	MAR 1	APR 30	MAY 31	JUNE 30
[A] Review Business Practices <ul style="list-style-type: none">o Identify any regions that have done data verificationo Identify the individual responsible for the source document and inputting the data										
[B] Undertake Data Verification/Update <ul style="list-style-type: none">o Identify data to be verifiedo Identify which reports are being requested and sent too Perform Time Tests<ul style="list-style-type: none">o Locate source documento Identify erroro Analyse if data is incorrecto Make correctionso Return source documento Verify correct data with the responsible individualo Identify missing data and updateo Determine availability of staff resources										
[C] Develop an Accountability Framework <ul style="list-style-type: none">o Documents should flow through regional managerso All information request are meto Regions should have an input to improve the system										
[D] Redefine Mandate <ul style="list-style-type: none">o Insure consistencyo Provide common definition										
[E] Develop Standards <ul style="list-style-type: none">o For corporate nad regional staff that they can rely ono Meet the needs and requirements of reports requested										
[F] Market Systems <ul style="list-style-type: none">o Data quality is reliable and accurateo Train regions to use the CHUMS system										
[G] Compare Data <ul style="list-style-type: none">o Compare data on both systems										

29/09/93

Appendix 6
Internal Audit Program

MINISTRY OF HOUSING

NON-PROFIT HOUSING AUDIT PROGRAM

Audit	Period
Project Code	Type NON-PROFIT

Section A - Reporting File

- A1 ☐ Evaluation of Final Response
- A2 ☐ Response to Final Report
- A3 ☐ Final Report
- A4 ☐ Response to Draft Report
- A5 ☐ Draft Report
- A6 ☐ Debriefing Discussion Notes
- A7 ☐ Summary of Audit Observations

Section B - Audit Management

- B1 ☐ Audit Team Contract
- B2 ☐ Audit Progress Record
- B3 ☐ Project Management - Audit Plan & Budget Worksheet
- B4 ☐ Project Management - Project Summary Report
- B5 ☐ Audit Program
- B6 ☐ Quality Assurance Review Report
- B7 ☐ Director/Manager's Review Notes
- B8 ☐ Peer Review Checklist + Notes
- B9 ☐ Audit Team Evaluation
- B10 ☐ Notes for Subsequent Audit
- B11 ☐ General Correspondence

Section C - Preliminary Survey Phase

- C1 ☐ Audit Strategy
- C2 ☐ Preliminary Issues/Observations Worksheet
- C3 ☐ Appendix A - Preliminary Meeting & Information Collection
- C4 ☐ Appendix B - Analytical Review
- C5 ☐ Appendix C - Auditee Questionnaire
- C6 ☐ Appendix D - Review of Auditee Records
- C7 ☐ Appendix E - Review of External Auditor's Working Papers

Audit	Period
Project Code	Type

Sections D to ☐ - Audit Program Implementation

D	Regional Monitoring Direction
E	Board of Directors
F	Third Party Management Services
G	Tenant Selection and Rent Calculation
H	Revenue
I	Operating Expenses
J	Replacement Reserves and MIR
K	Capital Costs

MINISTRY OF HOUSING
AUDIT SERVICES BRANCH
PROJECT MANAGEMENT
AUDIT PLAN AND BUDGET WORKSHEET

Audit Entity: _____

Type of Audit: Non-profit Housing

PHASE I - Preliminary Survey

**Task 1A - Preliminary Contact/Meeting
Appendix A**

HOURS BUDGETED

(Staff Initials) Total

Activities

1. Set up the initial meeting with RHPO staff, prepare the form introduction letter and the external auditor authorization letter.
2. Initial meeting with Housing Administrator and Financial Officer for the Non-profit to discuss the items detailed in Appendix A.
3. Carryforward all potential issues to the Preliminary Issues/Observation Work Sheet

TOTAL TASK 1A

B3(a)

HOURS BUDGETED

(Staff Initials) Total

Activities

1. Review and analyze (as appropriate) the financial information submitted to the RHPO by the non-profit:
 - Compare audited financial statements to the RHPO approved budget and review adequacy of RHPO follow-up of variances
 - Compare 1414 to Budget and review adequacy of RHPO follow-up of variances
 - Other analytical analysis as deemed necessary
2. Identify and Document potential issues/concerns on Preliminary Issues/Observations Worksheet

TOTAL TASK 1B[illegible]

Task 1C - Auditee Questionnaire Appendix C

HOURS BUDGETED

(Staff Initials) Total

Activities

1. Complete Part 1 of the questionnaire with the Chairperson of the Non-profit.
2. Complete Part 2 of the questionnaire with the individual/corporation responsible for the financial administration of the Non-profit.
3. Identify potential issues arising from each interview and summarize on Preliminary Issues/Observations Worksheet.

TOTAL TASK 1C[illegible]

HOURS BUDGETED

(Staff Initials) Total

Activities

1. Review Board of Directors and Committee minutes. Obtain the latest organization chart.
2. If applicable, review the terms of the Management Agreement
3. Review the External Auditor Engagement Letter and Management Letter.
4. Review and document signing authorities.
5. Review the charts of accounts budgets and supporting data and the books of accounts for reasonableness
6. Update Preliminary Issues/Observations Worksheet

TOTAL TASK 1D

[illegible]

Task 1E - Review of the EA Working Papers Appendix E

HOURS BUDGETED

(Staff Initials) Total

Activities

1. Complete the External Auditors Questionnaire.
2. Document the work completed by the external auditor regarding:
 - Systems Documentation
 - The work completed on various Account Balances
3. Document the Audit Strategy.
4. Revise the audit programs for the Observation/Issue Worksheet
5. Establish budget for Phase II - Audit Program Implementation and Phase III Reporting.
6. Obtain branch management approval of Audit Program and Final Budget. Input budgets for Phases II and III to ADM+.

TOTAL TASK 1E

TOTAL PHASE I

--	--	--	--

B3(c)

REVIEW FUNCTION (Charge to Code 4)

Task 4A - Preliminary Survey Review (PHASE I)

HOURS BUDGETED

(Staff Initials) Total

Activities include review of the following:

- Appendix A & Related Working Papers
- Appendix B & Related Working Papers
- Appendix C & Related Working Papers
- Appendix D & Related Working Papers
- Appendix E & Related Working Papers
- Audit Strategy
- Audit Program
- Audit Plan and Budget Worksheet
- Other (List)

TOTAL TASK 4A

Task 2A to 2Y - Audit Program Execution

1. Perform Audit Programs

- ### List Programs and Budgets

(Staff Initials) Total

TOTAL

NON-PROFIT'S NAME

LISTING OF REQUIRED INFORMATION

- *Names and occupations of all present Board of Directors.*
- *Names of key personnel of the _____ and their job descriptions.*
- *An Organizational Chart of _____.*
- *A listing by program of all projects operating or under development.*
- *Minutes of the Board of Directors*
- *Recent external auditor's management letters.*
- *A copy of the management contract between _____ and _____.*
- *A copy of the external auditor's engagement letter.*
- *A listing of the signing authorities of the Non-profit.*
- *A copy of the Chart of Accounts for the Non-profit.*

	1	2	3
χ^2	1.0	1.0	1.0
χ^2_{max}	1.0	1.0	1.0
χ^2_{min}	1.0	1.0	1.0

(Staff Initials) Total

Audit	Prepared	Date
Period	Reviewed	Date

Background:

Audit Objectives

Review the non-profit's compliance with Program Guidelines and Operating Agreements

Review the propriety of expenses incurred by your organization in providing affordable housing

Review the adequacy of direction and monitoring by the Ministry of Housing

Scope (Audit period)

Staff Assigned

Timing of Audit

Fieldwork

Draft report

Final report

Risk Assessment

Based on your preliminary review (preliminary issues work sheet) list the major risk areas and extent of testing required. Any areas that were "Not Satisfactory" in the review of the external auditors working papers should also be included.

NOTE: Deviations from the Management Approved Audit Program(s) should be documented below.

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____

Approved by: _____ Date: _____
(Manager)

C1(b)

Audit	Prepared	Date
Period	Reviewed	Date

	Initial	W/P Ref
1. Inform the Regional Manager and the Manager of Finance and Administration that an audit is planned. Ask the RHPO to advise the audit entity.		C3-1
2. Prepare the Ministry letter of introduction to be signed by the Regional Manager.		C3-2
3. Contact the Housing Administrator and Financial Officer responsible for the Non-profit to: <ul style="list-style-type: none"> - Confirm that the RHPO has advised the Non-profit of the planned audit - Explain audit objectives and process - Discuss scope and timing of audit - Ascertain the recency of submitted budgets and reporting packages - Discuss the most appropriate period to audit - Enquire about other audit initiatives and any RHPO concerns 		C3-3

	Initial	W/P Ref
4. Obtain the most recent of the following:		
- The names of board members, key personnel and contact persons at the Non-profit		C3-4
- A listing, by program, of all projects that are currently operating and under development		C3-5
- A list of signed project operating agreements (Obtain explanation for unsigned agreements)		C3-6
- Copy of certification from Non-profit lawyers on incorporating documents and by-laws		C3-7
- Organizational plan/management plan submitted by the Non-profit to support project allocation		C3-8
- The approved tenant mix (percent deep core, shallow, market) and the unit data activity reports for the audit period		C3-9
- Copies of the certified audited statements of final capital cost and final 1414s (capital budget) for completed projects		C4
- Operating budgets for the audit period and, if applicable, 1st year and base year budgets		C4
- Modernization, improvement and regeneration (MIR) and replacement reserve (RR) expenditure approvals for the audit period		C4
- Completed annual financial statements/packages for the audit period		C4
- Financial statements review and related settlements completed by RHPO		C4
- If recent audits were performed by other Ministries, the Provincial Auditor, or the RHPO, summaries of their findings		C3-10
- Other correspondence (ie: briefing notes, contentious issue reports, etc.)		C3-11
5. List new audit issues identified for further enquiry on the Preliminary Issues/Observations Work Sheet.		

Audit	Prepared	Date
Period	Reviewed	Date

	Initial	S or N*	W/P Ref
1. Note whether subsidies paid to the Non-Profit were in accordance with approved budgets and agree subsidies to amounts reported on financial statements. Record any differences and obtain explanations.			
2. Examine financial statement reviews completed by the RHPO. Note any items of non-compliance by the Non-profit for further enquiry.			
3. Summarize which claims have been settled, which are outstanding, and which have yet to be reviewed. Agree the most recent settlement amounts per Ministry to disclosures in the audited financial statements.			
4. Note amounts of any project operating surplus and any accumulated surplus not recovered by the Ministry. Investigate reasons for any non-collection.			
5. Scan operating expenditure line items. Note any significant variances from budget, and any items which are unusual because of their nature or size. Determine whether RHPO has followed up significant variances.			
6. Compare statements of final capital costs to final 1414 budgets. Scan the line items and note any significant variances, and any items which are unusual because of their nature or size. Determine whether RHPO has followed up significant variances.			
7. List new audit issues identified for further enquiry on the Preliminary Issues/Observations Work Sheet.			
Note: All information necessary to complete the audit program on "Regional Direction and Monitoring" should be obtained prior to leaving the RHPO.			

* S = Satisfactory, N = Not Satisfactory

Audit	Prepared	Date
Period	Reviewed	Date

This questionnaire contains two parts:

- 1) **Part I** is to be completed from interviews with the chair person and/or the senior executive.
- 2) **Part II** is to be completed from interviews with the person(s) responsible for financial administration of the Non-profit. Please indicate the person from whom the information was obtained.

PART I

Person Interviewed: _____ Interviewer(s): _____

Position: _____ Date: _____

1. Confirm receipt of letter of introduction. Discuss any concerns the auditee may have.
2. Have the auditee arrange for our review of the external auditors' working paper files. Have the auditee sign the authorization letter to the external auditor.
3. Explain that following the completion of the interview, you will need to review the records listed in the Ministry letter of introduction.

Document responses to the following enquiries:

4. How satisfactory are your communications with the Ministry? For example, are Ministry instructions clear, timely and relevant? Is monitoring by the Ministry reasonable? Please discuss. (Consider the frequency and effectiveness of written directions and personal contacts.)
5. How do you ensure that Ministry expectations are communicated to the appropriate persons responsible for the operations of the non-profit group? For example, are all appropriate manuals and documented procedures readily available and updated as required?

6. Briefly describe the board structure and composition. What are the roles and responsibilities of the officers? How does the board monitor the operation of the Non-profit? What is tenant's involvement in the administration and maintenance of the projects?
7. What is the method of management (by Non-profit, by LHA, by outside management firm)? How do you monitor their performance (reports, periodic checks or inspections)? How satisfactory are the services provided?
8. How are budgets generated (zero-based, last year plus inflation, etc)? What is the board/staff involvement in budget preparation?
9. Did the Non-profit experience consistent surplus/deficit? Are expenses incurred evenly throughout the year?

C5(b)

10. Does the Non-profit have documented financial and administrative policies and procedures? If yes, document the following areas:
- accounting procedures
 - cash management procedures
 - delegated authority for approving transactions
 - delegated authority for cheque signing
 - rules for competitive purchasing
 - reimbursement of board/staff expenses
11. Where the Non-profit has more than one project, or where the project has more than one funding source, enquire about the basis of allocation of common costs.
12. Enquire whether the Non-profit has any non-shelter space in any of its projects. Document details.
13. Did the Non-profit receive any donations? If so, what are the sources and amounts? Document what the donations were used for.
(Note that certain donations such as political contributions are unacceptable. Per Revenue Canada, a charity cannot engage in partisan activities.)
14. Has the Non-profit ever had any transactions with staff/board members?
If yes, what was the nature of these transactions and are any still ongoing? Is the Non-profit aware of the Ministry's conflict of interest guidelines?
15. Discuss concerns identified on the Preliminary Issues/ Observations Worksheet, or arising from responses to the questionnaire.
16. From responses to auditee questionnaire, note additional areas of concern on the Preliminary Issues/Observations Worksheet. Document any concerns satisfactorily addressed.

Part II

Accounting System

Person Interviewed: _____ Interviewer(s): _____

Position: _____ Date: _____

1. List the names, positions and responsibilities of the staff involved in the accounting function.

2. Is the accounting system computerized or manual? Briefly describe the accounting system used. (Compare current system to organization plan/management plan and note any major changes.)

3. What books of account are maintained? Are they maintained on a cash or accrual basis?

4. How promptly are transactions posted to the accounts?

5. Is the chart of accounts comparable to line items on operating budgets, final capital cost statements, etc?

6. Are account classifications sufficiently detailed to identify the precise nature of expenses, sources of revenues, proper program and project, and whether they are related to capital, operating, replacement reserve, MIR, and non-shelter?

Accounting System

7. What supporting documents are used to substantiate receipts, purchases, journal entries, payroll? Explain the approval process for cash disbursements.
8. What reconciliations are done on a regular basis and by whom?
(e.g. bank reconciliations, tenant subsidiary records to control account)
9. What financial reports are produced for review/how often/by whom?
10. How often are GST returns filed? Does the Non-profit have an adequate tracking system to ensure that all rebates and input credits are claimed?
11. Has the Non-profit attempted to obtain exemption from Municipal taxes. For Municipal Non-profits determine how the initial tax assessment was made.

C5(e)

EDP Controls

Person Interviewed: _____ Interviewer(s): _____

Position: _____ Date: _____

1. Briefly describe the EDP system, i.e. type of hardware and software, batch input or on-line.
2. How do you ensure access is restricted to authorized individuals? How is authorization for entries ensured and recorded?
e.g. access by security code/password
signature on source documents
logs of user ID/activity
3. Are there computer controls to ensure reliability and completeness of input?
e.g. validity checks on account numbers
balanced entry required
requirement to fill in description/reference
standard input screen
4. What procedures are used for identification and correction of errors,
e.g. exception reports, management review and approval before posting?
5. How are data and programs safeguarded from loss, e.g. appropriate back up procedures, virus detection, disaster and disruption plan?
6. How do you control the distribution and retention of computer generated reports?

Person Interviewed: _____ Interviewer(s): _____

Position: _____ Date: _____

1. What is the current tenant mix compared to the approved target plan? Find out the reason for any significant variance?
2. Does the Non-profit maintain a waiting list of prospective tenants? Briefly describe the system of reviewing initial applications. (Consider eligibility and occupancy standards)
3. How long are applications kept on file? What has been the size and turnover experience of the waiting list?
4. Enquire about tenant selection. What priority system is used? (Where applicable, 50% of RGI vacancies are to be filled by the LHA as per Referral Agreement.)

5. What has been the group's vacancy rate? Has the group experienced any difficulties in filling vacancies? Why?
6. Is there an acceptable and approved transfer procedure for tenants? Briefly describe.
7. What system is used to handle tenant complaints and maintenance requests?
8. What are the procedures governing move-in, move-out and annual unit inspections?

Rent Calculations

Person Interviewed: _____ Interviewer(s): _____

Position: _____ Date: _____

1. Are RGI rent calculations in accordance with Ministry requirements?
2. Are appropriate and up-to-date utility allowances/charges being used in the calculations?
3. Are valid leases completed for all tenants? Do leases contain key clauses per the Project Operating Agreement?
4. Are tenants required to notify the Non-profit of changes in household and income during the year?
5. What are the annual income review procedures? What documents are available to support the verification of income and assets?

6. Is proper notice of rent increase given? (60/90 days prior to rent increase)
7. Is there a rent forgiveness program? Under what circumstances is rent forgiven? What is the approval process?
8. What policies and procedures are in place for tenant chargebacks?
9. What are the policy and procedures regarding overdue rent/arrears?
10. Are proper authorization procedures in place for write off of receivables?

Procurement

Person Interviewed: _____ Interviewer(s): _____

Position: _____ Date: _____

1. What purchase order system is in use to document the initiation and authorization of ordering goods and services?
2. How is maintenance initiated, by whom, and how is it documented?
3. Does the group maintain a qualified contractor's list. If so, how was it selected?
Does the group carry out a policy of fair rotation of contractors.
4. Are competitive quotations or public tendering used to procure goods and services?
If so, for what dollar value and type of transaction?
5. Are documented steps taken to ensure satisfactory performance by contractors?
6. How were the repairs recorded in the accounting system.

From responses to auditee questionnaire, note additional areas of concern on the Preliminary Issues/Observations Worksheet.

Audit	Prepared	Date
Period	Reviewed	Date

	Initial	S or N*	W/P Ref
<p>1. Review minutes of board of directors meetings. Note:</p> <ul style="list-style-type: none"> - meeting frequency and attendance - election of officers at annual general meetings - roles and responsibilities of board members - evidence of review of financial statements by qualified individual(s) - approval of annual budgets - significant/contentious issues <p>2. Obtain the latest organization chart. Is it up to date? Are reporting relationships clear and sensible?</p> <p>3. If the Non-profit is managed by third party management services, obtain and review the terms of the management agreement to determine:</p> <ul style="list-style-type: none"> - key responsibilities - contractual period and fees charged - policies and procedures regarding signing authority, purchasing limits and tendering practices <p>4. Examine copy of external audit engagement letter. Does it address attestation of compliance with key financial terms of the operating agreement? (Note that interim letters signed in the absence of an agreement require compliance with key terms as if an agreement were in place.)</p> <p>5. Review latest management letter from auditors. Note significant points. If management letters were not prepared, check with the external auditor.</p> <p>6. Review and document signing authorities. Is delegation reasonable, eg. the compulsory signatory is a board member/key staff? (Consider: authority to commit funds, pay invoices, sign cheques.)</p>			

* S = Satisfactory, N = Not Satisfactory

	Initial	S or N *	W/P Ref
<p>7. Obtain an up-to-date chart of accounts. Note and explain any unusual accounts.</p> <p>8. Review the latest budget and supporting documentation.</p> <p>9. Scan books of accounts. Are they up-to-date, complete and well maintained?</p> <ul style="list-style-type: none"> - general ledger - receipts/disbursements journals - rent register - cheque register - payroll records - fixed asset subledger <p>10. From review of auditee records, make changes to Preliminary Issues/Observations Worksheet.</p>			

* S = Satisfactory, N = Not Satisfactory

C6(b)

Audit	Prepared	Date
Period	Reviewed	Date

External Auditors' Questionnaire

Person Interviewed: _____ Interviewer(s): _____

Position: _____ Date: _____

1. What services are provided to the Non-profit by the external auditor? (audit, accounting, GST filings, etc.)
2. Does the engagement letter include the preparation of a compliance report? If so, has one been provided to the non-profit? If the external auditor does not provide a compliance report determine the reasons why.
3. Have there been any related party transactions or conflict of interest situations that you are aware of?
4. How active is the Board in the operations of the Non-profit?
5. What shape are the accounting records in? Are they kept up-to-date? Do you require a significant amount of adjusting entries at year-end?
6. How many non-profit housing corporations does your firm audit?
7. Do you have any concerns with regards to auditing these Non-profit housing corporations in general?
8. Are there any concerns/issues with regards to this Non-profit project that you would like us to address?
9. Have you had any dealings with the RHPO and if so, what was your experience? How was the service?

	Initial	S or N*	W/P Ref
Review of Systems 1. Determine whether the external auditors have prepared up-to-date flowcharts or narratives documenting flow and control points for the following areas: <ul style="list-style-type: none"> Revenue (including rents/receivable/receipts) Purchases/payables/payments Payroll Non-cycle accounts (G/L, Assets, Reserves) 2. Determine whether key controls (including computer controls) have been evaluated and tested. Describe the extent of testing in each area listed above. 3. Note any significant control weaknesses found during evaluation or testing and ensure that they have been included in the management letter to Board of Directors. Review the steps taken by the Non-profit to correct the situation and determine their effectiveness. Review of Work on Account Balances 1. Cash and Bank <ul style="list-style-type: none"> where petty cash is significant determine whether it has been examined for adequate control and proper usage. bank account balances have been confirmed at year-end. 2. Receivables <ul style="list-style-type: none"> determine whether receivables have been verified or confirmed at year-end. review list for any unusual amounts and related party balances. 3. Payables <ul style="list-style-type: none"> determine whether accounts payable and accrued liabilities have been reviewed to ensure they are valid liabilities and only include amounts for which goods and services were received before year-end. review list for any unusual amounts and related party transactions. 4. Mortgage Payable <ul style="list-style-type: none"> determine whether the mortgage loan outstanding has been confirmed and agreed to principal reduction and interest to amortization. 			

* S = Satisfactory, N = Not Satisfactory

C7(b)

	Initial	S or N*	W/P Ref
<p>5. Replacement Reserve</p> <ul style="list-style-type: none"> determine whether the replacement reserve account has been reviewed to ensure that the reserve has been properly funded and funds invested in government backed securities (i.e., treasury bills, term deposits, etc.). Note for the last two years there has been a moratorium or replacement reserve contributions. 			
<p>6. Revenue</p> <ul style="list-style-type: none"> determine and document extent of testing done to ensure reported revenues are complete and accurate including testing of: <ul style="list-style-type: none"> vacancy loss other income(donations, laundry, non-shelter) rent subsidy market rent RGI rent calculations/income reviews 			
<p>7. Operating Expenditures</p> <ul style="list-style-type: none"> determine and document extent of testing done to ensure reported expenses are complete and accurate including: <ul style="list-style-type: none"> legal expenses (for related parties) bad debts maintenance (for related parties) office & general realty taxes utilities payroll 			
<p>8. Final Capital Costs</p> <p>determine and document extent of testing done to verify capital expenditures on the FCC including:</p> <ul style="list-style-type: none"> land purchase price construction/renovation costs professional fees (architect, legal, etc.) organization expenses development consultant charges GST <p>note any expenditures that are accruals (invoices not received) and follow these up at the auditee's.</p>			
<p>9. Review audit program to see if there are any other tests the external auditor has performed that would reduce or eliminate the need for our testing. Document these and include the working paper in the appropriate audit section.</p>			
<p>10. Based on your review of external auditors working papers update the Preliminary Issues/Observations Worksheet and Audit Program.</p>			

* S = Satisfactory, N = Not Satisfactory

C7(c)

Audit	Prepared	Date
Period	Reviewed	Date

Program REGIONAL MONITORING

Objective

To review the adequacy of regional monitoring and direction provided to the Non-profit.

Criteria

1. The RHPO approves the project operating budget and performs an effective review of the Non-profit's financial statements on a timely basis.
2. The RHPO provides property management support, including technical support in the maintenance of the housing projects and interpretation of policy on rent/occupancy charge calculations. Usually done by the RHPO in such activities as site inspections, compliance reviews and telephone conversations.
3. The RHPO visits projects to ensure compliance with the Project Operating Agreement and the Administration Manual.
4. The RHPO has provided adequate monitoring and direction to the non-profit during the development phase (see Capital Cost Section).

Sample Selection and Size

(to be determined after Preliminary Survey Phase)

Conclusion

Program REGIONAL MONITORING	Initial	S or N*	W/P Ref
Audit Procedures			
1. Review and comment on the timeliness of Non-profit's submission of operating budgets and financial statements/packages, and RHPO's review of the information submitted. Where such information was submitted late document the attempts made by the RHPO to obtain the information.			
2. Determine the adequacy of the process and criteria used by the RHPO for reviewing and approving the annual operating budgets. (do they consider prior year's surplus/deficit, other funding sources, etc.)			
3. Review and comment on the timeliness of receipt of the FCC. Document reasons for the delay, if substantial. Determine the effect, if any, caused by the delay in finalizing capital costs.			
4. Review and document the RHPO's ongoing monitoring process which should include compliance reviews and periodic site inspections. Note any comments or concerns the RHPO has about the monitoring process.			
5. Based on the results of the audit procedures and any observations in the preliminary phase, document the conclusion.			
6. Reference the results of other programs which deal with regional monitoring and have been included in your conclusion.			

* S = Satisfactory, N = Not Satisfactory

Audit	Prepared	Date
Period	Reviewed	Date

Program	BOARD OF DIRECTORS
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Objective	
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To assess whether the Board of Directors is effective in its overall management of the corporation.

- ### Criteria
1. The Board meets on a regular basis to evaluate and make decisions on the administration of the Non-profit. Decisions are fully documented and justified.
 2. The Board reviews the results of operations and establishes and/or approves all corporation policies and ensures consistent application of these policies.
 3. The Board evaluates and authorizes major expenditures for capital and expense items where authority has not been delegated.
 4. The Board establishes policy on the corporations investments to realize best return.

Sample Selection and Size

(to be determined after Preliminary Survey Phase)

Conclusion

Program	BOARD OF DIRECTORS	Initial	S or N *	W/P Ref
Audit Procedures				
1. Review Letters patent and By-laws to ensure they contain key clauses required by the Ministry. Determine whether the non profit adhered to the By-laws, for example, roles and responsibilities of the directors, election of officers etc.				
2. Review composition of the Board for qualifications and experience (i.e. biography). Review the requirements for membership to ensure it is not unduly restrictive. If necessary consider interviewing directors to determine what role they play and whether they are aware of their responsibilities as Board members.				
3. Determine the action taken by the Board on any management letters or qualified opinions issued by the external auditors.				
4. Review Board membership for potential conflict of interest situations. (Compare to knowledge of vendors, employees, tenants etc.) Determine whether conflict of interest declarations have been made in these situations. (Refer to Conflict of Interest Guidelines)				
5. Based on the results of the tests performed and information gathered in the preliminary phase, prepare a conclusion.				
6. Reference the results of other programs and Appendix C which deal with board of directors and have been included in your conclusion.				

* S = Satisfactory, N = Not Satisfactory

**AUDIT SERVICES BRANCH
AUDIT PROGRAM/LEAD SHEET**

Page 1 of 2

Audit	Prepared	Date
Period	Reviewed	Date

Program THIRD PARTY PERFORMING MANAGEMENT SERVICES (LHA or outside firm)

Objective

To assess whether the third party management company has fulfilled its responsibilities as described in the management agreement.

Criteria

1. A written agreement is in place specifying the services to be provided.
2. The non-profit monitors the service performed by the management company on a regular basis.

Sample Selection and Size

(to be determined after Preliminary Survey Phase)

Conclusion

F

Program	THIRD PARTY MANAGEMENT SERVICES	Initial	S or N*	W/P Ref
Audit Procedures				
1. Based on the summary of the written agreement in Appendix D determine whether these stated policies and procedures are being adhered to.				
2. Enquire of the non-profit how they monitor the duties performed by the management company (reports, periodic checks or inspections etc.) and determine whether this is adequate.				
3. Based on discussions with the management company determine whether Ministry policies are communicated in a timely fashion.				
4. Where tendering was not used determine whether the Non-profit paid a reasonable price for the services rendered.				
5. Based on the results of the tests performed and information gathered in the preliminary phase, prepare a conclusion.				
6. Determine who the property executive officers, directors, and owners of the property management firm are by asking their representative. If a perceived/actual conflict of interest situation exists, the property management representatives answer is unsatisfactory - perform a search of CCR records.				

* S = Satisfactory, N = Not Satisfactory

Audit	Prepared	Date
Period	Reviewed	Date

Program TENANT SELECTION AND RENT CALCULATION

Objective

To assess the extent to which the Non-Profit has complied with the program requirements in the area of tenant selection and rent calculation.

Criteria

1. Only households in need which meet the program eligibility criteria are selected to occupy RGI units
2. The calculation of the monthly income and basic rent are based on the most current tenant data.
3. Tenant incomes are reviewed annually and rents adjusted as necessary.
4. All tenants have valid leases

Sample Selection and Size

(to be determined after Preliminary Survey Phase)

Conclusion

Program	TENANT SELECTION AND RENT CALCULATIONS	Initial	S or N*	W/P Ref
Audit Procedures				
<p>1. Review rent roll for tenants related to Board members or employees and include these tenants in sample selected for Test 2.</p> <p>2. Select a sample of RGI tenants and verify the following:</p> <p>a) Review tenant application forms and ensure tenants met program eligibility requirements. (F/P N/P Manual NA-0203-01)</p> <p>b) Verify annual income reviews by vouching reported income to supporting documentation and recalculating rent. Determine if a proper assessment of their most recent income was conducted and ensure that the monthly rent has been adjusted accordingly. (F/P N/P Manual NA-0402-02)</p> <p>c) Verify that the current utility charges and allowances are properly included in the rent calculation. (F/P N/P Manual NA-0413-01).</p> <p>d) Verify that proper notification of rent increase was given to tenants (i.e. 60 days notice).</p> <p>e) Verify that there is a valid and current lease on file. Ensure that the lease contains the necessary clauses per the Project Operating Agreement.</p> <p>f) Trace rent calculated to one month's rent deposit to verify that the proper rent is being charged and collected from the tenant.</p> <p>3. If the Non-Profit claims to conform to the Ministry requirement that 50% of deep core tenants are referred from OHC (see Auditee Questionnaire) obtain evidence to support this claim by reviewing tenant placements over a period of time. If satisfactory evidence cannot be obtained from the non-profit, consider confirming this with the LHA. (F/P N/P Manual NA-0204-04)</p> <p>4. Review tenant files and waiting list to ensure that the selection criteria described by the auditee is being used on a consistent basis. (F/P N/P Manual NA-0204-06)</p>				

* S = Satisfactory, N = Not Satisfactory

Program	TENANT SELECTION AND RENT CALCULATIONS	Initial	S or N*	W/P Ref
Audit Procedures				
5. Review tenant records and Unit Data Activity Report to obtain evidence that the non-profit has adhered to the tenant housing targets (percent of deep core tenants) agreed to in the Project Operating Agreement.				
6. Review a sample of market tenant files to verify that:				
a) The appropriate market rent is being charged.				
b) Market rents are being increased annually				
c) Market rents collected were sufficient to meet reduced rents required per budget. (F/P N/P Manual NA-0306-01)				
7. Based on the results of the tests performed and information gathered in the preliminary phase, prepare a conclusion.				

* S = Satisfactory, N = Not Satisfactory

G1(a)

Audit	Prepared	Date
Period	Reviewed	Date

Program REVENUE

Objective

To assess whether the Non-profit has adequate systems in place to ensure completeness of revenues from all sources.

Criteria

1. The Non-profit has formal procedures in place to follow up on accounts receivable.
2. Rent forgiveness is only given to qualifying tenants upon approval of the Board.
3. Vacancies are filled on a timely basis.
4. Adequate procedures and systems are in place to collect and record all sources of income.

Sample Selection and Size

(to be determined after Preliminary Survey Phase)

Conclusion

Program REVENUE	Initial	S or N*	W/P Ref
Audit Procedures <ol style="list-style-type: none"> 1. Review bad debts expense for the period for reasonableness. Examine collection procedures to ensure that the non-profit is making reasonable attempts to minimize bad debts. 2. Verify that rents received balanced to total receivable for the month. 3. Determine whether controls exist to ensure completeness of recording and depositing cash from non-rental revenue sources. 4. Obtain easytrieve reports from RHPO on operating subsidy payments made to the non-profit. Test a sample of projects by agreeing annual subsidies per Ministry to amount reported on the financial statements. 5. Review unit activity report for units vacant longer than 2 months and obtain explanation. 6. Although vacancy losses are recorded as an expense on the budget, verify that vacancy loss is netted against revenue on the financial statements. 7. Obtain a list of tenants who received rent forgiveness and check for supporting documentation and approval. 8. Review system of tenant charge backs to ensure that they are properly collected and reported. 9. Review donations received and document the source of any significant amounts. 10. Review procedures for move-ins and move-outs and ensure the Non-profit maintains proper documentation in the tenant file. 11. Based on the results of the tests performed and information gathered in the preliminary phase, prepare a conclusion. 			

* S = Satisfactory, N = Not Satisfactory

Audit	Prepared	Date
Period	Reviewed	Date

Program OPERATING EXPENSES

Objective

To determine whether operating subsidies to the non-profit are being used for eligible program operating costs within Ministry guidelines.

Criteria

1. Operating expenditures are within Ministry approved budget.
2. Expenses are for bonafide delivered goods or services.
3. Operating expenses are allocated to non-shelter activities where applicable.
4. Operating expenses do not include items of a capital nature (i.e. replacement reserve and MIR funded expenses).

Sample Selection and Size

(to be determined after Preliminary Survey Phase)

Conclusion

Program OPERATING EXPENSES	Initial	S or N*	W/P Ref
Audit Procedures <ol style="list-style-type: none"> From the general ledger or cheque register select a sample of recorded operating expenses and test for: <ol style="list-style-type: none"> adequacy of support authorization for payment project related cost proper account classification reasonableness (i.e. other quotes, contracts etc.) fundable operating expense Where operating costs are allocated to various projects or non-shelter activities review the basis of the allocation for reasonableness. Scan the general ledger or cheque register for any unusual or related party transactions. Review major contracts to verify that a competitive price was obtained (i.e. tendered, competitive quotes). Where funding from other sources is material, obtain from the auditee, approved budgets indicating the amounts and fundable expenses for these sources. Review Ministry funded expenditures for possible duplicate funding. Based on the Analytical Review of financial statements in Appendix B investigate any major variances or unusual items. Based on the results of the tests performed and information gathered in the preliminary phase, prepare a conclusion. 			

* S = Satisfactory, N = Not Satisfactory

Audit	Prepared	Date
Period	Reviewed	Date

Program REPLACEMENT RESERVES AND MIR

Objective

To assess whether Replacement Reserves are being properly maintained as provided for in the Project Operating Agreement and whether Replacement Reserve and MIR funds are used only for eligible, approved expenditures

Criteria

1. The appropriate amount of replacement reserves is being set aside each year.
2. Replacement Reserves are only being used to cover the costs for replacing worn out capital items (i.e. stoves, refrigerators, roofs, heating equipment etc.)
3. MIR funds are being used for planned remodelling and building code requirements for existing items in the project.

Sample Selection and Size

(to be determined after Preliminary Survey Phase)

Conclusion

Program	REPLACEMENT RESERVES AND MIR	Initial	S or N*	W/P Ref
Audit Procedures				
1. With reference to the Project Operating Agreement verify that the appropriate amount of Replacement Reserves has been set aside in a separate account with accrued interest each year since I.A.D. (Note that replacement reserves were not funded for '92 and '93 year-ends due to Ministry constraint exercise.)				
2. Verify that Replacement Reserve amount charged to operating expenses on the financial statements agrees to Ministry approved budget and Project Operating Agreement.				
3. If these funds have been used during the period verify that the costs were eligible for Replacement Reserve funding and RHPO approval was obtained. (F/P N/P Manual NA-0504-06)				
4. If an MIR subsidy has been provided to the non-profit during the period ensure that the funds were used for approved expenditures. Maintenance operating costs covered by the Replacement Reserve fund should not be included as part of the MIR subsidy. Verify that any unused MIR funds are returned to the Ministry.				
5. Based on the results of the tests performed and information gathered in the preliminary phase, prepare a conclusion.				

* S = Satisfactory, N = Not Satisfactory

Audit	Prepared	Date
Period	Reviewed	Date

Program CAPITAL COSTS

Objective

To assess whether capital funding advanced to the non-profit was used for eligible program costs, within Ministry guidelines.

Criteria

1. Funds advanced to the non-profit were used for ministry approved expenditures.
2. Total project costs were approved by the Ministry
3. Actual expenditures are reasonable and within Ministry guidelines
4. All capital costs have been reported on the FCC Statement and none have been flowed through the income statement as operating costs.

Sample Selection and Size

(to be determined after Preliminary Survey Phase)

Conclusion

Program CAPITAL COSTS	Initial	S or N *	W/P Ref
Audit Procedures <ol style="list-style-type: none"> Based on the Analytical review and the external auditors working papers in Appendix B investigate any significant variances and unusual items. Reconcile total expenditures on the FCC statement to the project's capitalized costs on the financial statements and the approved loan amount. Determine if there were any unspent mortgage advances or interest credits not applied to reduce mortgage principal. Ensure that total capital costs are within approved MUP by reference to the appraiser's remarks and CMHC approvals, where applicable. Review land appraisal and agree to amount reported on FCC statement. If no land appraisal was performed ascertain reason why. Determine if RHPO or non-profit lawyer has performed a title search covering the period 5 years prior to purchase. If not, perform title search. Review a sample of development consultant charges to ensure expenses were appropriately charged to organization expense. Determine whether development expenses are within program guidelines (Directive # 89-02). Review other organization expenses for propriety and related party transactions. Review major contracts (i.e. land purchase, construction contract, architect, development consultant, lawyers etc.) for potential conflict of interest situations. Consider search of these companies to ensure that they are not related to any Board members. Select a sample of recorded capital expenses from the FCC statement and/or general ledger and test for: <ol style="list-style-type: none"> adequacy of support evidence of approval justifiable allocation to project proper account distribution capital vs operating expense For completed projects determine how costs in excess of approved loan amounts, if any, have been financed. Review any requests for loan increases for adequacy of support, necessity of increase and proper approval. 			

* S = Satisfactory, N = Not Satisfactory

K1

Program CAPITAL COSTS	Initial	S or N *	W/P Ref
Audit Procedures 9. Review operating expenses for first year of operations to verify that no capital costs were flowed through as operating expenses. 10. Review procurement technique used for construction contract (tender, turnkey) to ensure that a competitive price was obtained. Where contract change orders exceed the budgeted contingency amount, review these with RHPO technical staff for reasonableness. 11. Based on the results of the tests performed and information gathered in the preliminary phase, prepare a conclusion.			

* S = Satisfactory, N = Not Satisfactory

K1(b)

Region

Ref.

100. Organization

- ☐ Location, phone numbers
- ☐ Organization chart
- ☐ Audit contacts
- ☐ Other

200. Knowledge of the Entity

- ☐ List of all Non-Profit groups, by program
- ☐ Systems documentation/flowcharts
- ☐ Project operating budget/Annual return package
- ☐ Review checklists/Tracking forms
- ☐ Other

300. Legal Documents

- ☐ Intergovernmental agreements
- ☐ Operating agreements/memoranda of understanding
- ☐ Financial/Management agreements
- ☐ Major or long-term agreements
- ☐ Other

400. Communication

- ☐ Directives from Head Office
- ☐ Newsletters to Non-profits groups
- ☐ Current program changes
- ☐ Other

500. Audit Concerns

- ☐ Reports of Non-profit groups audited
- ☐ General correspondence

Note:

- (1) All documents in the file must be reviewed to determine relevance.
- (2) Outdated, irrelevant and/or superseded documents must be removed from file.
- (3) Each document must be initialled and dated.

[illegible]

APPENDIX 7

Work plan on Backlog of Final Capital Costs,
Audited Financial Statements and Operating Budgets

PUBLIC ACCOUNTS COMMITTEE

BACKLOG

FCC, BUDGETS AND FINANCIAL STATEMENT

WORK PLAN

As at September 31, 1992, the backlog of required documentation for all non-profit projects under administration was 3,574, including Statements of Final Capital Cost (FCC), Operating Budgets and Audited Financial Statements.

As at August 31, 1993, 3,058 of those documents have been reviewed and approved in the six Regional Housing Programs Offices.

Completion of the remaining outstanding documents remains a priority with the Ministry. All Regional Housing Programs Offices are making every effort to contact groups regularly for missing or outstanding information and/or resolve outstanding issues where possible.

Additional resources have been retained in most regions to assist in obtaining outstanding and/or missing information, as well as the review process.

All regions provide monthly status reports to head office, the first week of each month. The progress to date is reviewed monthly by the Executive Director, Housing Field Operations at the Regional Managers Meeting.

The following table reflects the targeted completion of the remaining documentation:

	FCC'S	BUDGETS	FIN STATEMENTS
Central	December 31/93*	December 31/93*	Complete*
Eastern	October 30/93*	September 31/93	October 31/93*
Northern	December 31/93*	December 31/93	December 31/93*
Northwest	October 31/93*	Complete	Complete*
Southern	October 31/93*	December 31/93*	December 31/93*
Southwest	December 31/93*	December 31/93*	December 31/93*

* The completion dates indicated above do not include 275 documents for review in the six Regional Housing Programs offices with issues such as liens, insolvency, care/non-shelter agreements, investigation of fraudulent activity, non-compliance by group or unsigned co-operative agreement. Where an asterisk appears, regions have such problem documents.

APPENDIX 8

Work plan on Co-operative Operating Agreements

WORK PLAN - CO-OPERATIVE PROJECT OPERATING AGREEMENTS

September 13, 1993

Historical Overview

In February 1986, the Ministry entered into an agreement with the Government of Canada to share the cost of social housing programs which they wish to foster jointly. A subsidiary Operating Agreement was also entered into with CMHC which established a framework within which joint programs can be planned, developed, delivered, administered and cost-shared.

Consultations began in 1986 after the announcement of the F/P Non-Profit Housing Program. For a variety of reasons, the co-op sector argued that some provisions of the operating agreement for the non-profit program were unworkable for co-ops.

The Minister agreed in February 1987 to allow some differences in subsidy arrangements for co-operative, on the condition that any such changes not result in co-ops being less cost-effective than other types of projects.

In 1988, the consultation was essentially completed with the major fundamental issues reaching a resolution.

Throughout the remainder of 1989 and 1990, work continued on the operating agreement. Drafts were produced and discussed within the Ministry, and in ongoing meetings with CHAO.

In the Spring of 1991, Ministerial direction was sought on some of the fundamental outstanding issues in the agreement.

The fall of 1991 brought two major exercises which are closely linked to the operating agreement; the consultation on A Housing Framework for Ontario and the Non-Profit Program Review. In its response to the Framework paper, CHAO sought greater autonomy for the co-op sector, while through the NP Review, Treasury Board asked the Ministry to look for ways of increasing fiscal control, and decreasing expenditures. The goals of the two exercises seemed to be at odds, with the operating agreement as the means to one end or the other.

The agreement is finalized and individual operating agreements are being signed.

Tracking & Monitoring

A process has been set up to track and monitor the progress being made on the signing of the Co-operative Project Operating Agreements. A weekly update is prepared in head office from information supplied by contact persons in each of the Regional Housing Programs Offices

(RHPOs). The reports include the following information:

- Total number of co-operatives that require signed agreements.
- Number of draft and final agreements prepared by the RHPO. These agreements are sent to the co-operative for review of the draft and for signatures of the final.
- Number of signed final agreements.
- Information on any problem agreements.

This process has been successful in tracking and monitoring the progress being made on the signing of the co-operative project operating agreements.

Timing

Progress continues to be made on the signing of the co-operative project operating agreements. It is anticipated, with the exception of some problem projects, the majority of the projects will be signed by December 31, 1993. The remaining problem projects, those with unusual legal issues etc., should be signed early in the new year.

The signing of co-operative project operating agreements will be an ongoing process. New projects will require agreements as they come on stream.

Training & Assistance

Training sessions have been held to assist the RHPOs in the signing of these agreements. These sessions have provided regional staff with training on the signing and ongoing implementation of these agreements. The training sessions were held in August and September of this year. Further training will be provided when necessary. On an ongoing basis, the RHPOs may contact head office staff to ask for clarification and assistance.

STATUS UPDATE - CO-OPERATIVE PROJECT OPERATING AGREEMENTS

September 13, 1993

REGION	# of Agreements Sent Out	# of Agreements To Be Sent Out	# of Signed Agreements	Anticipated Completion Date
NORTHERN	16	0	0	December 31, 1993*
EASTERN	18	0	18	complete
SOUTHERN	44	0	26	December 31, 1993*
SOUTHWESTERN	5	29	0	December 31, 1993*
CENTRAL	3	117	0	December 31, 1993*
NORTHWESTERN	-	-	-	-

- There are no co-ops in this region.

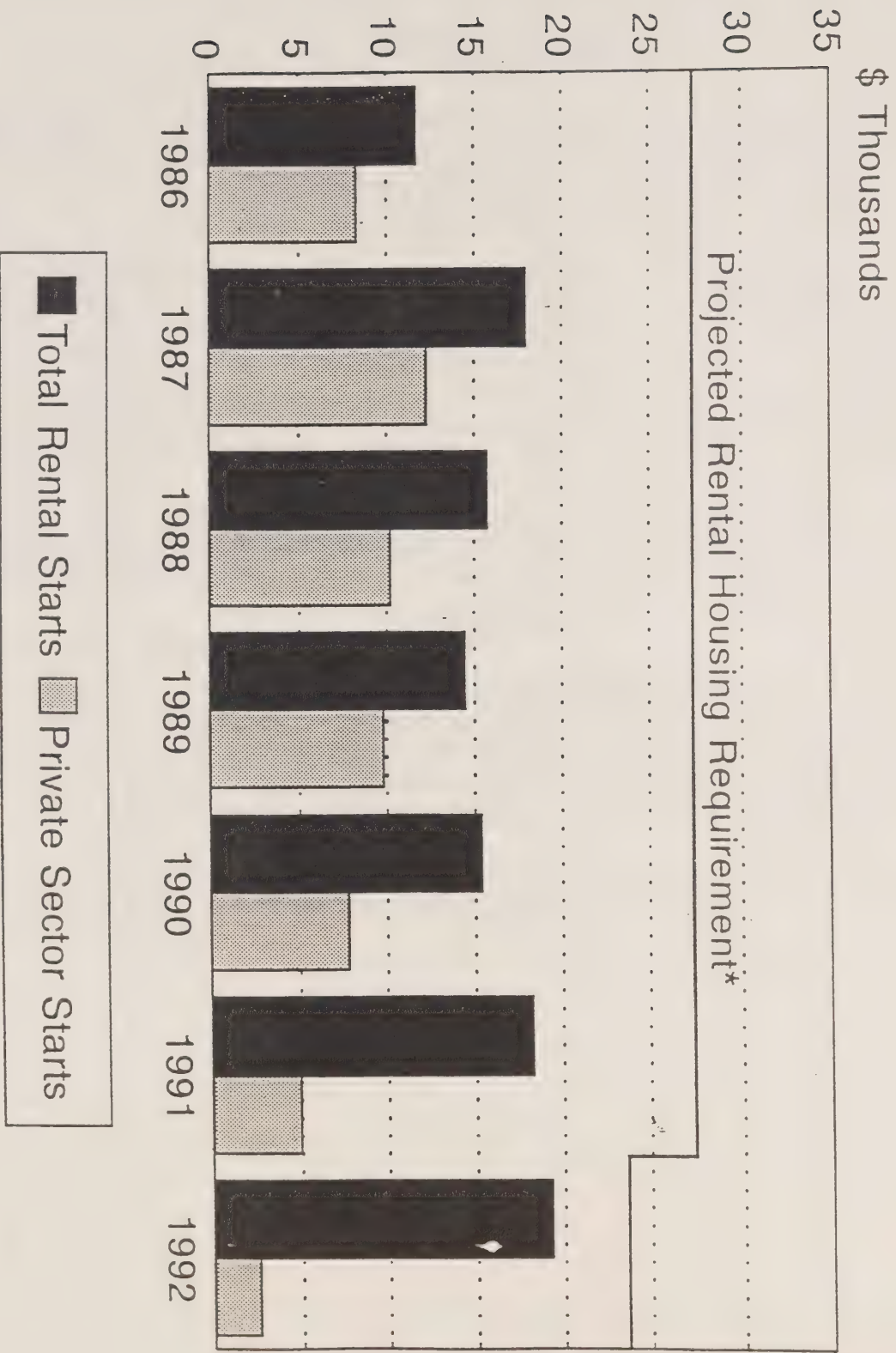
* Progress continues to be made on the signing of the co-operative project operating agreements. It is anticipated, with the exception of some problem projects, the majority of the projects will be signed by December 31, 1993. The remaining problem projects, those with unusual legal issues etc., should be signed early in the new year.

The signing of co-operative project operating agreements will be an ongoing process. New projects will require agreements as they come on stream.

APPENDIX 9

Charts and Tables on Rental Starts and Vacancy Rates

COMPARISON OF RENTAL STARTS TO PROJECTED PROVINCIAL REQUIREMENTS



Source: CMHC Rental Market Report

* Projection: Statistics Canada, Ministry of Treasury and Economics.

Note: Difference between Total Rental Starts and Private Sector Starts is Non-Profit Housing Starts.

Vacancy Rates in Selected Metropolitan Areas

Privately Initiated Buildings with 6 or More Units

40

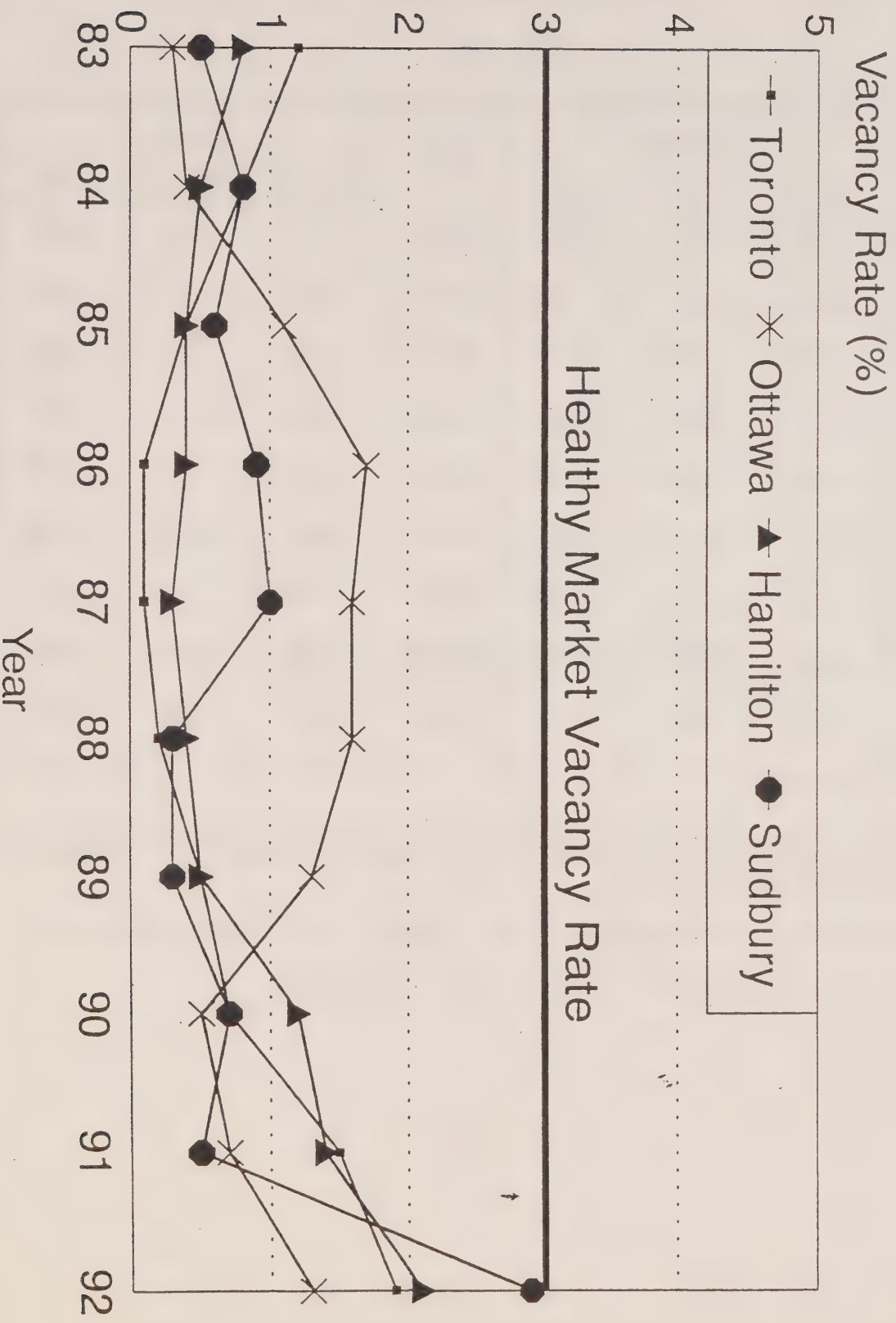


Table 1

Housing Starts in Ontario

1984 - 1992

Year	Ownership			Total Starts	Rental		
	Freehold	Condo	Total		Private	Assisted	Total
1984	34,909	3,694	38,603	48,171	4,969	4,599	9,568
1985	45,971	5,382	51,353	64,871	7,381	6,137	13,518
1986	59,509	10,268	69,777	81,470	8,245	3,448	11,693
1987	68,918	18,313	87,231	105,213	12,251	5,731	17,982
1988	62,795	21,450	84,245	99,924	10,237	5,442	15,679
1989	58,100	20,800	78,900	93,300	9,800	4,600	14,400
1990	35,000	12,400	47,400	62,700	7,700	7,600	15,300
1991	30,000	4,500	34,500	52,800	4,900	13,400	18,300
1992	33,500	3,000	36,500	55,800	2,500	16,800	19,300

Notes:

1. 1984-88: Source CMHC surveys starts activity by intended market for urban areas with population of 10,000 or more. The all Ontario estimate (includes rural areas) are Ministry of Housing estimates based on the 10,000 plus figures. The assisted rental starts are calculated by CMHC.

2. 1989-90: CMHC, Ministry of Housing estimates; all areas calculated as above. Numbers have been rounded.

3. 1991-92: Estimated using CMHC urban areas starts data by intended market.

APPENDIX 10

Report on the Backlog of Financial Statements
Final Capital Cost Statements and Operating Budgets

REPORT ON THE BACKLOG OF FINANCIAL STATEMENTS
FINAL CAPITAL COST STATEMENTS AND OPERATING BUDGETS

The backlog is defined as follows:

AUDITED FINANCIAL STATEMENTS - Any project with a fiscal year of July 31, 1992 or earlier.

ANNUAL OPERATING BUDGETS - Any project under administration, where a budget was due on or before December 31, 1992

AUDITED STATEMENT OF FINAL CAPITAL COST - Any project that attained Interest Adjustment Date on or before July 1, 1992

Notes:

In the case of Central RHPO, the June 30th Report was the first time that this region is in the position to identify all outstanding budgets. All prior backlog status reports included estimated figures.

Some of the backlog in audited statements of Final Capital Costs is a result of the unresolved GST procedures. The Ministry has recently resolved this matter with Revenue Canada and backlog can be cleared.

OUTSTANDING AUDITED FINANCIAL STATEMENT
AS AT JUNE 30, 1993
WITH COMPARATIVE FIGURES FOR MARCH 31, 1993

RHPO	OUTSTANDING MARCH 31, 1993	APPROVED APRIL 1 - JUNE 30	OUTSTANDING JUNE 30
CENTRAL	115	85	30
EASTERN	82	0	82
NORTHERN	23	1	22
NORTHWEST	13	4	9
SOUTHERN	78	0	78
SOUTHWEST	40	0	40
TOTAL PROVINCE	351	90	261

**OUTSTANDING ANNUAL OPERATING BUDGET
AS AT JUNE 30, 1993
WITH COMPARATIVE FIGURES FOR MARCH 31, 1993**

RHPO	OUTSTANDING MARCH 31, 1993	APPROVED APRIL 1 - JUNE 30	OUTSTANDING JUNE 30
CENTRAL	UNKNOWN	UNKNOWN	640
EASTERN	19	3	16
NORTHERN	10	0	10
NORTHWEST	0	0	0
SOUTHERN	57	42	15
SOUTHWEST	26	0	26
TOTAL PROVINCE	112	45	707

**OUTSTANDING STATEMENT OF FINAL CAPITAL COST
AS AT JUNE 30, 1993
WITH COMPARATIVE FIGURES FOR MARCH 31, 1993**

RHPO	OUTSTANDING MARCH 31, 1993	APPROVED APRIL 1 - JUNE 30	OUTSTANDING JUNE 30
CENTRAL	171	33	138
EASTERN	28	0	28
NORTHERN	35	4	31
NORTHWEST	18	2	16
SOUTHERN	50	15	35
SOUTHWEST	24	7	17
TOTAL PROVINCE	326	61	265

APPENDIX 11

Dissenting Opinion of Margaret Marland, MPP
and David Tilson, MPP

PROGRESSIVE CONSERVATIVE DISSENTING OPINION

Standing Committee on Public Accounts

1992 Annual Report of the Provincial Auditor, Section 3.12 (Non-Profit Housing)

The primary objective of section 3.12 of the 1992 Auditor's Report on non-profit housing was to point out financial and accountability problems in the planning, building and administering of provincial non-profit housing. This was accomplished. The primary objective of the Standing Committee is to take that report, recognize problems within the system, and revamp the system to work them out. The PC Party of Ontario is very disappointed that the committee is not able to take a firm stand with the government and deal with the excessive waste inherent in the provincial non-profit housing programs.

The provincial non-profit housing programs have been lessons in poor spending. There has been ample opportunity in the past eight years for both administrations to cut waste. The committee's refusal to take a hard line on the Auditor's Report, however, is tantamount to acceptance of a program which has become one of the fastest growing areas of social spending. The program has expanded without public debate which could have significantly curbed government spending, and identified alternatives for the provision of affordable housing.

The government of Ontario remains blind to less costly alternatives. Raised in the house and in committee, shelter subsidies have been illustrated to cost the province less, while housing more. The Progressive Conservative Party of Ontario calls for a full review of the current system of providing housing assistance in order to identify and analyze less costly alternatives.

The Auditor's Report

In the selection and approval of housing projects, the Auditor concluded that the processing of 70,000 assisted housing units over a five year period was costly. The controls on the allocation process and the system to ensure competitive costs did not function properly. The Auditor specified the following problems:

- Housing need studies were not thorough; and
- the costs of projects approved in 1990 and 1991 continued to increase despite changing market conditions.

The Auditor has determined that non-profit projects had both higher controllable and operating costs than private Toronto rental expenditures. Although the Ministry is attempting to reduce costs now through competition and other procedures, it faces mounting costs from previous purchases that were not adequately screened.

The Auditor concluded that the system was ineffective because of the lack of

sufficient controls to ensure cost-effective management and program compliance.

The Ontario Progressive Conservative Party is encouraged by the Housing Ministry's response that it has taken the recommendations as constructive. We will monitor the Ministry's implementation of improvements that should increase the efficiency of the present assisted housing system.

Operating Agreements

During the Committee hearings, considerable interest was expressed on the part of the Progressive Conservative Caucus members in regards to the lack of operating agreements for each project. According to the Provincial Auditor, a high percentage of projects were without any such agreements.

Operating agreements between the Ministry and the non-profit operators ensure accountability with proper fiscal and budget management. The Ministry has recently stated that the problem is still being addressed, but that it will be the end of 1994 before the agreements are all in place. This is two full years after the Auditor identified the problem, and one year after the Ministry had originally assured the committee that all the operating agreements would be completed.

The Progressive Conservative Party does not believe this to be an adequate response to a very serious problem. Currently, the province is the guarantor for thirty-five

year mortgages on more than one thousand projects (comprising over one hundred thousand units). It is imperative that operating agreements be put in place immediately.

The Buffer Zone

The NDP government of Ontario now believes that a "buffer zone" of projects would be the next logical step in the development of the non-profit housing program. Fearing a repeat of the housing shortage of the late eighties in the Greater Toronto Area, the Ministry of Housing believes that subsidizing more projects than are currently needed would be beneficial.

The Progressive Conservative Party believes that to make a "buffer zone" policy would be shortsighted, rather than far-seeing as the government intends, especially as the non-profit program is in trouble *now*. The program is estimated to cost over \$700,0000 for the 1993-94 fiscal year, and that is in addition to the rent revenues from market rent tenants and the smaller rents that subsidized tenants pay.

To add knowingly to the program's cost by building units that could stand empty indefinitely is an irresponsible use of taxpayers' money. Not only will the project operators be unable to meet mortgage payments, thus thrusting the burden onto the provincial coffers, but they will also be unable to afford building upkeep, both regular and emergency. Either the Province will foot the bill for that as well, or the

projects will become poorly maintained buildings where the government could not, in conscience or in the views of safety, place anyone if the need arose.

There are vacant units in both non-profit housing projects and private sector rental accommodation in the province at this time. The government must examine the use of private buildings as a viable alternative to the proposal for building a "buffer zone" in the non-profit program.

Cross-Subsidizing

Non-profit housing projects are supposed to pay for themselves eventually.

However, the increasing ratio of assisted tenants to market rent tenants and the inability of non-profit projects to rent their market rent units are making the goal of self-sufficiency more and more remote. This inability to find tenants for market-rent units could lead to the development of low-income ghettos. The negative consequences of such a problem cannot be overstated.

Alternatives to Spending

We know that the NDP Government does not want money to end up in the hands of private sector owners of rental accommodation. However, if it does, much of the present burden on the provincial chequebook will be alleviated. Ensuring that people are guaranteed a shelter supplement if they cannot afford adequate housing

offers several attractive benefits over non-profit housing:

- Choice for the people involved. A shelter supplement based on income, family size, special accommodations needs, etc., gives people receiving benefits the choice of living near employment, family, friends, child care, churches, schools and other amenities.
- This choice can also help prevent the development of low-income ghettos.
- The province would not have to guarantee mortgages. Although the Ministry has said that the province is rarely required to take over a defaulted mortgage, the possibility is strong. As guarantor, the province would be responsible for the payments of a defaulting sponsor group. Currently, there are approximately \$7 billion in residential mortgages in the non-profit and cooperative housing programs in the province.
- The province would not subsidize maintenance and repairs.
- Both short- and long-term costs would be less. According to Clayton Research Associates, a highly regarded firm of housing economists, over a fifty year time frame, 45,000 units of non-profit housing will end up costing the province roughly \$100 billion more than subsidizing the equivalent number of people with shelter allowances.

- A shelter allowance program would allow assistance to be provided to all those in need who wish to apply. In rough figures, the total annual cost of the program for 200,000 renters would be an estimated \$275 million. By contrast, the 1992 non-profit program required \$200 million to subsidize only 20,000 units.

The Ministry of Housing admits that due to factors such as higher staffing levels, costs of monitoring clients, and maintenance and repair expenses, the non-profit housing sector generally experiences higher operating costs than those of the private rental sector. Given these factors, shelter subsidies appear to be a viable alternative to the current non-profit housing programs. This alternative requires further analysis to discover all potential applications and benefits.

Conclusions

To continue with the present policies, indeed to expand on them, would be an unacceptable waste of the taxpayers' money. In a time of great strain on the provincial coffers, taxpayers no longer want their elected officials to spend our way into increasing debt. It is the particular responsibility of the Public Accounts committee and the Government of Ontario to examine any alternatives and solutions to the waste which now confronts us.

It is the concern of the Ontario Progressive Conservative Party that the current government is not operating the non-profit program in a manner which is economically viable in either the short run or the longer term. Several decisions have been made that illustrate, in the opinion of this Party, shortsightedness on the part of the NDP government. Such a massive undertaking as non-profit housing cannot be run without a far-reaching vision that will adequately ensure proper management, minimal waste and the most economical use of the government's financial resources.

The Government of Ontario stated in its response to the Auditor's Report that it wishes to increase the supply of affordable housing in the province. In many areas the supply is already in place; it is now up to the government to make proper use of the taxpayer's dollars to tap that supply adequately.

The Progressive Conservative Party of Ontario believes that the government has a very important responsibility to assist those Ontario residents who cannot find affordable housing, to ensure that as many people as possible can be housed, and to eliminate waiting lists for assisted housing. In order to accomplish these tasks and to make the best use of the available resources, we recommend an immediate moratorium on all new non-profit housing expenditures until a full review of the current system and an in-depth survey of all other possible alternatives, including shelter subsidies, can be undertaken. Now, with the financial crisis facing the

Government of Ontario, is not the time to increase spending without the proper checks and balances required in such a complex system.

APPENDIX 12

Terms of Reference, Standing Committee on Public Accounts

COMITÉ PERMANENT DE COMPTES PUBLICS

Ordres de renvoi

The Standing Committee on Public Accounts is established pursuant to the Standing Order 104(j). Its permanent terms of reference, as set out in the Standing Orders, are as follows:

104(j) Le Comité permanent de comptes publics, qui est autorisé à étudier le rapport du vérificateur provincial et les comptes publics et à faire rapport de ses observations, opinions et recommandations à l'Assemblée législative. Ces documents sont réputés renvoyés en permanence à ce comité dès qu'il sont déposés.

APPENDIX 13

Schedule of Hearings

Standing Committee on Public Accounts

Schedule of Hearings

Tuesday, 9 March 1993

10.00 a.m.

Witnesses:

From the Ministry of Housing:

Daniel Burns
Deputy Minister

Toni Farley
Manager
Housing Programs, Central Ontario Region

Wednesday, 10 March 1993

10.00 a.m.

Witnesses:

and 2.00 p.m.

From the Ministry of Housing:

Daniel Burns
Deputy Minister

Toni Farley
Manager
Housing Programs, Central Ontario Region

Thursday, 11 March 1993

10.00 a.m.

Witness:

From the Ministry of Housing:

Daniel Burns
Deputy Minister

Friday, 10 September 1993

10.00 a.m.

Witnesses

From the Ministry of Housing:

Daniel Burns
Deputy Minister

Shirley Hoy
Assistant Deputy Minister, Housing Operations

Peter Schafft
Executive Director (Acting), Housing Operations

David Martin,
Director, Housing Programs Branch, Housing Operations

Janet Mason
Director, Housing Policy Branch
Housing Policy and Planning Division

Bradford Singh
Director, Audit Branch

Monday, 13 September 1993

2.00 p.m.

Witnesses

From the Ministry of Housing:

Daniel Burns
Deputy Minister

Shirley Hoy
Assistant Deputy Minister, Housing Operations

Peter Schafft
Executive Director (Acting), Housing Operations

David Martin,
Director, Housing Programs Branch, Housing Operations

Janet Mason
Director, Housing Policy Branch
Housing Policy and Planning Division

Bradford Singh
Director, Audit Branch

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